

JPRS-CAR-91-043
29 JULY 1991



JPRS Report

China

DISTRIBUTION STATEMENT A

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19980202 179

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INFORMATION SERVICE
SPRINGFIELD, VA 22161

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NORTHEAST ASIA

Political Uncertainties in Asian Pacific Discussed

91CM0460A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 3, 15 Mar 91 pp 15-18

[Article by Lu Lin (4151 2651), affiliated with the Shanghai Academy of Social Sciences' Institute of World Economics, and edited by Zhang Jiazhe (1728 0159 0772): "Political Outlook of the Asian-Pacific Region in the 1990's"]

[Text] Since the latter half of 1989, all of Europe has been turned upside down. Against this backdrop, international politics in the Asian Pacific region has also undergone a subtle change. This is seen primarily in the readjustment by China, the United States, the Soviet Union, and Japan of their respective policies in the region; in the easing of the relationship between the Soviet Union and Japan; in the establishment of diplomatic relations between the Soviet Union and South Korea; and in the fact that, encouraged by the United States, Japan is wielding its great economic strength and is ready to jump into the Asian and global political arena. All of this signifies an impending dramatic change in the composition and balance of international power in all of East Asia. On the other hand, China has also been making bold diplomatic moves in the Asian Pacific region. In particular, it has established and resumed diplomatic relations with Singapore and Indonesia respectively. These moves will have a major impact on the international pattern in the Asian Pacific region in the 1990's.

In the opinion of most Chinese and foreign researchers, the power of checks and balances in the Asian Pacific region in the 1990's will be in the hands of China, the United States, the Soviet Union, and Japan. Some suggest that ASEAN will be a pivotal force too. People speculate that a reunited Korea will play a balancing role which should not be overlooked. Someone else has predicted that as soon as Vietnam has resolved all of its serious internal and external problems, it too will play an important regional role. Another viewpoint suggests that as the U.S. military presence in the Asian Pacific region diminishes, its sphere of influence in the region will gradually shrink. All of these predictions confirm that in the 1990's the Asian Pacific region will be a multipolar region.

It should be noted that the possible distribution of power in the Asian Pacific region in the 1990's as described above is not sufficient to determine the future pattern of the region's international relations (today many analyses simply equate "distribution of power" with political "pattern," which is incorrect). In other words, when it comes to international politics, the distribution of force or power which results in the creation of "poles" does not cover the whole idea of the "pattern of international relations." In fact, "polar" formation is necessarily tied to specific and crucial international issues; there is

nothing abstract about "poles." International issues are the substance of a political pattern, and the distribution of force or power—or "poles"—is a unique structure created around these issues. For example, the bipolar pattern after World War II was a distribution of power which centered around the struggle between two large camps, and which dealt specifically with the issues of military and political security in the postwar world. With respect to the economic stability and development of today's capitalist world, there is actually a tripolar pattern, made up of the United States, Europe, and Japan, although in the struggle to establish a new international economic order, there was at one time a clear north-south, bipolar pattern. These instances demonstrate that there are two basic elements in the pattern of international relations: One, there are some specific, crucial international issues. Two, the emergence and resolution of these issues results in a redistribution and recombination of the major international forces. Thus, to briefly describe the pattern of international relations in the Asian Pacific region in the 1990's, we must first analyze the major international issues and the trends of development this region may face in the 1990's.

A. Dialogue is just unfolding, but there is no room for optimism about its near-term results or implications.

As the global cold war gradually comes to an end, the Asian Pacific nations and region are engaging in active political dialogue. There are more contacts of all kinds, and the regional atmosphere has become much more relaxed. We would like to cite the following examples:

Since the latter part of the 1980's, political and military contention between the United States and the Soviet Union has gradually eased. After Gorbachev took office, he proposed in speeches delivered in Vladivostok in 1986 and Krasnoyarsk in 1988 that the United States and the Soviet Union work together to reduce their respective military roles in the Asian Pacific region. He suggested that the Soviet Union would abandon its military base at Vietnam's Cam Ranh Bay in exchange for the United States abandoning its military bases in the Philippines, and so on. Subsequently, the Soviet Union also announced a unilateral reduction of its armed forces by 500,000 men, 260,000 of whom would be cut from its Asian division. In response, U.S. politicians have been clamoring for a gradual reduction in the U.S. military presence in the Asian Pacific region. The United States has displayed an unprecedented passive attitude toward its military bases in the Philippines and other nations.

There are several signs that things are improving in war-torn Southeast Asia. The Cambodian issue is slowly on the way to finding a political solution. Meanwhile, there are signs of renewed cooperation among Southeast Asian nations. Indonesia and Vietnam reached an agreement over the peaceful resolution of the Cambodian question in July 1987, and with that as the cornerstone, ASEAN has begun to play a role in smoothing the relationship between the two countries. In addition, Thailand's prime minister Chatchai conceived the idea

of "turning the Indochinese battleground into a market." Guided by this idea, Thailand began to reach out to Vietnam. In February 1988, ASEAN announced that as soon as the Cambodian issue is resolved it will form an organization which will include the three Indochinese countries. In the last year or two, India and Thailand have fostered closer ties with Vietnam. There have been frequent contacts through economic and even military delegations. In addition, in October 1990 Vietnamese foreign minister Nguyen Co Thach also visited the United States and Japan.

The tense atmosphere that has long shrouded Northeast Asia is gradually lifting. Contacts between North and South Korea have increased noticeably. Since he took office, South Korea's No Tae-u has been pushing for a "northern policy." Under this policy, civilian enterprises have begun doing business with their northern counterparts. In 1989, Chong Chu-yong, who pioneered South Korea's modern enterprise groups, visited North Korea, breaking new ground in north-south civilian contacts. At the same time, political dialogue between the two sides was put on track. On 20 June 1990, North Korea proposed that the two sides resume contacts and hold a meeting between the two premiers. One month later, they agreed that the two premiers should meet in Seoul for the first time since the Korean War. In October, the meeting became a reality. In the same month, President Kim Il-song received South Korea's Prime Minister Kang Young-hoon and expressed hopes of having a summit between the two sides as soon as possible.

Meanwhile, political relations between South Korea and the Soviet Union have been developing rapidly, resulting in the establishment of formal diplomatic relations in 1990. Reconciliation between the Soviet Union and Japan has been put on the agenda. Talks between China and the Soviet Union over their border disputes are producing positive results. Against the background of Hong Kong's and Macao's return to their motherland by the end of the century, economic and cultural exchange across the strait has also increased.

Dialogue promotes understanding; it fosters a more relaxed atmosphere, and it helps to resolve regional issues. But we must distinguish and analyze cautiously and sobermindedly the possible outcomes of the various dialogues and the current relaxed atmosphere in the region. With regard to U.S.-Soviet relations, because both sides have acquired a new understanding of each other's strategic intentions and each other's capability in carrying out those intentions, and because the Soviet Union must deal with its overwhelming internal political, economic, and social problems, so that it must reduce the scope of its foreign strategy in order to win more international understanding and support, we can be quite sure that the two countries—which have long been each other's imaginary enemy—will minimize their military presence and curtail their arms race in this region. As for the Sino-Soviet and Japanese-Soviet relationships, although there may be some improvements, there are many concrete problems left by history, such as

territorial disputes, which cannot be fully resolved in the near future. In particular, the Soviet Union's uncertain political future will necessarily have a negative effect on its relationship with other countries. Other issues, such as the Cambodian issue and the Korean reunification question, are also not problems that can be solved overnight. In short, we should not be overly optimistic about the short-term results of dialogue or the relaxed atmosphere in this region. The fact of the matter is, unlike in Eastern European nations, most of the conflicts and disputes in this region are not the result of man-made arrangements imposed or coerced by the major powers, and therefore it is unlikely that a change in the internal or external policies of major powers will trigger a dramatic change in this region. In particular, we should see that some of the region's major issues, such as the Cambodian and Korean issues, have profound ideological and party and factional struggle backgrounds, which makes them especially difficult to resolve and their final outcome almost impossible to predict. We must be well aware of this point.

B. The Political and Economic Development and Foreign Relations of the Region's Major Countries

From the point of the level of economic development, the nations in this region fall into three distinct groups. There is Japan, which is a world economic power. There are the up-and-coming economic stars known as the "four small tigers." Also, there are many that still lag behind economically. For the reasons cited below, when these evenly-developed nations formulate their economic policies, they pay special attention to their relationships with advanced countries outside of the region. They have neglected their economic relationships with one another for a long time. First, a substantial portion of the funds these countries need for economic development comes from countries in Europe and America. In order to promote their trade balances and accelerate the accumulation of funds and foreign exchange, these Asian nations must depend on developed countries for marketing their products. Second, all the advanced technologies and facilities which these Asian nations need for development come from advanced countries outside of the region. Bringing in and absorbing these technologies and quickly turning them into productive abilities is critical to their economic development. Finally, the region's political climate since World War II has prevented much economic contact between the major countries in the region. In the postwar era, the above factors have long prevented these nations from supplementing one another's economic needs, which would have played a role in strengthening their economic ties. For example, statistics show that in 1987, the United States accounted for 35.1 percent, and the Japanese market accounted for 11.5 percent, of the export volume of Asia's "four small tigers." The United States accounted for 16.2 percent, and Japan 26.4 percent, of their import volume.

When most nations in the region first began developing their economic relations, they focused on the United States, Europe, Japan, and other developed countries.

They did not try to develop close economic ties among themselves. When the United States rescinded its generalized preferential treatment toward the "four small tigers," it forced them to work harder in turning to each other's markets and to develop other markets in the region, and it also increased their economic interdependence. However, we should realize that the export mixes of these nations are very similar and, because of their socio-cultural background, their domestic consumption capacity is limited. Thus, entering one another's markets and other markets in the region will lead to economic competition and disputes among themselves. In addition, many nations in the region do not have a perfect market economy, and many are at the initial stage of economic prosperity and political development. At this stage, the government's control over the economy is obvious, and the national economy is heavily colored with political implications. Under these circumstances, economic competition and disputes can easily turn into political disputes and conflicts among the nations.

Furthermore, another potentially unstable factor which the Asian Pacific region may face in the 1990's is that some countries will be entering a period of political instability. Such instability will cause a new division and recombination of political forces in the region, and this in turn will throw regions' international relations into turmoil. Another political reality is that there are deep-rooted nationalist sentiments and mutual distrust among nations in the region. This distrust is caused by many complicated factors, such as historical, cultural, ideological, social, and political factors, and territorial disputes. In the 1990's, differences in real benefits can intensify the sense of suspicion among these nations. In particular, in the postwar era, the fact that some countries have displayed hegemonic intentions has and will continue to have a negative effect on international cooperation in the region.

C. The Japanese and the Korean Peninsula Issues

The development and evolution of Japan's political and military role and the Korean peninsula situation may very well be some of the core issues shaping the political situation in the Asian Pacific region in the 1990's. In the 1980's, which were marked by many changes, Japan wielded its strong economic power and repeatedly displayed its intention to play the role of a major political power. During the upheaval in Eastern Europe in 1989, it offered financial assistance. On the Cambodian issue, Japan also played an unusually active role. During the recent gulf crisis, Japan strived hard to play the role of mediator, and even extended military and economic aid. Nakasone's seven-point program was the only Western program Saddam Hussein found acceptable. In short, Japan has been taking an active part in important global and regional international affairs. As a matter of fact, Japan's political role in the international arena is encouraged and supported by the United States. For example, some people in the United States have suggested that Japan should become a permanent member of the United Nations Security Council. The Soviet Union

seems to neither be perturbed by nor object to the prospect of Japan's becoming a political power. We can expect that in the 1990's, Japan will gradually become more visible as a major political power.

What worries people is Japan's role as a major military power. Although Japan's military budget, as a percentage of its GNP, is very small, because the absolute value of its GNP is so high, the total value of its military budget actually ranks third in the world. In addition, Japan has been taking petty action about its criminal conduct during World War II. In the recent gulf crisis, it was even ready to dispatch its self-defense corps, hoping to use this as an excuse to amend its post-war constitution, which limits its military capability. This cannot help but worry many Asian nations. This is one aspect of the issue. Meanwhile, in view of the fact that a country like Japan, which is founded on trade, must have vital overseas interests, and in view of the fact that there are some uncertainties in the Asian Pacific region's political and economic development in the 1990's, if the United States and the Soviet Union reduce their military presence too soon, in a way it will encourage Japan to strive for a new military role and to acquire new military capabilities. In this respect, perhaps the recent gulf crisis had a strong effect of stimulating and forewarning Japan.

The problem is, Japan's role as a major political and military power is by no means an internal Japanese political issue. It has to do with the immediate interest and sense of security of many Asian nations. Thus, it seems that the issue of how to limit Japan's international role to a scope with which most Asian Pacific nations feel comfortable has become a real issue which nations in the region must think about seriously in the 1990's.

In summing up the above, we can briefly describe the nature of the main problems facing the Asian Pacific region in the 1990's as follows: First, the intrinsic nature of the Asian Pacific problems in the 1990's basically has nothing to do with the U.S.-Soviet global contention. The economic problems the region faces should certainly be looked at and resolved in the context of the world economy. But its security and political problems basically originate within nations in the region, and the easing of U.S.-Soviet relations does not imply that the region's peace and security will necessarily be guaranteed. On the contrary, if in the 1990's these Asian nations fail to find an effective way to control potentially unstable factors, then a reduced U.S. and Soviet military presence may result in an arms race among these nations themselves. If this happens, the region's traditional sense of mutual distrust will emerge once again, economic development will be hindered by an arms race, and in turn the region will be mired in political upheaval. Second, the region will face a multitude of problems that are not interrelated. The nations in this region share no unified economic interests and have no political solidarity. Except for ASEAN, bilateral relations play the dominant role in this region. There is no way yet to form a multilateral mechanism which can comprehensively deal with the region's problems.

The aforementioned nature of the major problems facing the Asian Pacific region in the 1990's determines the basic characteristics of the region's political pattern in the 1990's.

1. The inevitability of U.S. and Soviet involvement.

The complicated political background of nations in the region, the deep-seated suspicion among the nationalities, and the lack of economic ties between nations in the region—compared to their extensive ties with nations outside the region—all will prompt these nations to bring in foreign influences and forces to balance potentially hostile forces within the region. For example, Singapore has repeatedly encouraged the United States to set up a military base there. This will give impetus to U.S. and Soviet interests in the region and to these countries' participation in Asian Pacific affairs. The structure of the region's international relations will also provide an internal stimulus for U.S. and Soviet involvement. This two-way impetus means U.S. and Soviet influence in the region will be permanent and inevitable. Despite their

reduced military presence in the region, their real influence will remain an integral part of the region's power structure.

2. The political pattern will remain uncertain in the 1990's.

The region's problems are very complicated, mainly because they are not interrelated. At best, we can only ascertain that a multipolar pattern will emerge, and the power of checks and balances will come from the region's several major powers. But we have no way of determining the relatively stable relationship among these major powers or of ascertaining their conduct. We can imagine that they will make frequent references to their traditional theory of the balance of power, which will make the region's international relations even more complicated. One of the prominent characteristics of a multipolar pattern is that each country will have so many choices in diplomacy that it will be very difficult to predict where a country will stand on a particular issue. In this respect, where a country stands has more to do with the timing of the occurrence of the issues.

NATIONAL AFFAIRS, POLICY

Reform of Land System Under Commodity Economy

91CE0589A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 3, 20 Mar 91 pp 25-27, 33

[Article by Gao Shangquan (7559 1424 0356), of the State System Reform Commission, edited by Lin Li (2651 4539): "Establishing a New Type of Property-Rights System is the Key to Land System Reform"]

[Text] China is a developing agricultural giant whose resources, in terms of per capital land occupancy, are extremely limited. Practicing the public ownership of land conforms with national conditions and is conducive to long-term economic development and stability. It should be recognized, however, that the practice of public ownership of land alone cannot guarantee the rational use and efficient allocation of land. To guarantee this, there must be a system of land property rights that is suited to the public ownership of land and to the development of a commodity economy. Therefore, on the basis of upholding the public ownership of land, we must explore and study the extensive structure and relationships of the land system, and bring to light the essential and inevitable connections between the land system and economic development.

The land system includes two basic systems. One is the land ownership system, which deals mainly with the problem of land ownership, and defines the body of land ownership. The other is the land property rights system, which involves the questions of the efficient use of land. It covers mainly land use and the system of land circulation and transfer. Land ownership and land property rights are related to, as well as different from, each other. They reflect different angles and dimensions of the characteristics of a certain land system. The former system solves the problem of who owns the land. It determines the production relationship between people that forms during the production process. The latter system solves the problem of how to utilize land. It determines the relationship between the rights, responsibilities, and interests of all interested bodies in the process of using land.

Looking at the economic history, a characteristic of the classical or traditional property rights system is that the owner and manager are one person, and that the ownership and management is centralized within one body. Along with the development of a commodity economy, particularly the development of a modern commodity economy, the functions of the owner were separated from those of the manager, leading to the dispersion of property rights and bringing about a separation between ownership and management rights. This gave rise to the birth of multiple property and interest bodies which have ownership, management, and employment links to the same piece of land. This was the objective basis on which the property rights system was formed, under the

conditions of a modern commodity economy. The modern property rights system was gradually formed in order to define the relationship between the responsibilities and interests of different property and interest bodies, and in order to solidify the basic property relationship. The most basic content of the modern property rights system is the definition of property and the clarification of the property relationship. It specified in legal terms the body with property ownership. At the same time, it strictly defined the relationship between the responsibilities, interest, and power of the owner, manager, and producer, setting up a mutually binding relationship between all interested bodies with regard to properties, interests, and responsibilities. Under the premise of ensuring the basic rights and interests of the land owner, the modern property rights system endowed the manager with the power to use land for production and to exercise his managerial ability. It broke down the absolute barriers of private ownership of land, and to a certain extent reconciled the contradictions between private ownership and socialized mass production. The separation between ownership and management and between ownership and usage rights led to the formation of multiple bodies with interests in using and controlling the same property. This was the inevitable outcome of the development of a commodity economy. Based on a strict definition of the powers, interests, and responsibilities of all interested bodies, the modern property rights system provided realistic possibilities for the transfer of various powers and functions, and for the allocation and rational utilization of land. It is the premise for the rational allocation and optimal conformity of land.

Because land is a non-renewing resource characterized by immobility, the phenomenon of separating land ownership and usage rights appeared as early as the period of the pre-commodity economy. It became fairly common, particularly in social economies with large land ownership. In a sense, the separation between land ownership and usage rights during the pre-commodity economy was largely the result of the contradiction between large land ownership and backward productive forces. It was associated with the characteristic of land as a factor of production. At that time, the owner and user of the land had a contractual, leasing relationship. Under the conditions of a commodity economy, the dispersion of land property rights was based on the relationship between commodities and currency, and was the result of contradictions between the private ownership of land and the commodity economy and socialized mass production. Compared with the dispersion of property rights under the conditions of a natural economy, dispersion under a commodity economy had as its premise a strict definition of the clear-cut responsibilities, powers, and interests of all interested bodies. Although the relationship between land property rights and their dispersion carry some of the characteristics of the land factor itself, it has commonalities with the dispersion and relationship of property rights of general properties. Under different property rights systems and property relationships, the same piece of land may have entirely different uses and

results. For instance, under the system of small land ownership, a small farmer who held both ownership and management rights would obviously use and manage land differently than would a farmer whose management rights were separate from ownership rights, and who engaged in intensive farming. In China's case, before reform, land utilization under the collective ownership of land within the framework of the people's communes was entirely different than after reform, under the household land contract system. Comparative studies of international land property rights systems may also show that other than the determinant factor of the land ownership system, the question of whether land use is economical and rational depends mainly on whether the property rights system meets the development demands of a modern commodity economy. More concretely, it depends on the clarity of the definition of the property right relationship formed between the owner, manager, and user, and the definition of the resultant relationship between all interested bodies. The clearer the relationship of property rights and the more rational the definition of property rights, the more economical land use will be, and the higher efficiency will be. Otherwise, the more blurred the property rights relationship and the more confused the relationship of land management interests and responsibilities, the more uneconomical and inefficient land use will be. The dispersion and rationalization of the relationship of land property rights was a rather slow process, like the penetration of the commodity and currency relationship into agriculture. There is little comparison between the clarification of the relationship of land property rights and the socialization of land use rights. As can be seen, where the property rights relationship was relatively unitary and the body of ownership was clearly defined (such as under the small land ownership), the socialized use of land was much more difficult. Can it be said that the nominal existence of a body of ownership and a blurred property rights relationship (such as under China's rural public ownership of land before reform) would increase the degree of socialization of land? It would not seem so. Where the commodity economy was underdeveloped, the efficiency of land use was very low, and there was no real possibility for the socialized use of land, because the responsibilities, interests, and powers of, as well as the mutual and binding relationship between owner and manager were not clearly defined. Historical experience tells that to improve the efficiency of land utilization, effectively protect land resources, and increase the degree of socialized use of land, we must adapt to the development of a commodity economy based on public ownership of land, and must crystalize the property rights relationship. At the same time, under the premise of clarifying the property rights relationship, we must establish a rational land circulation system. Only when land is rationally circulated can it be allocated rationally and utilized effectively along with other factors of production. The degree of socialized use of land property rights will then increase further, and promote economic development.

It has already been more than thirty years since China established its system of public ownership of land. Its characteristics are that land ownership is highly centralized, but the highly centralized ownership of land is not clearly represented. On the one hand land use rights belong to different interested bodies, but on the other hand neither the user nor the owner bear economic or legal responsibility for the rational use of land. This makes it difficult for land resources to be utilized fully and rationally, and it gives rise to the waste and uneconomic use of land resources.

Economic construction in the last several decades demonstrated that China's traditional land property rights system is not conducive to the development of a commodity economy nor to the rational utilization of land. To a certain extent it impeded and constrained China's economic development. Looking at the inherent contradictions and shortcomings in China's land system, however, one sees that the root of the problem does not lie in the public ownership of land itself, but in the irrational land property rights system. Because the land property rights system did not conform to the development of a commodity economy, public ownership of land could not fully utilize its advantages. Therefore, the direction of China's land system reform is not to alter the nature of land ownership, but to fundamentally reform the traditional land rights system on the basis of the public ownership of land. The main task is to determine the personal representation of the public ownership of land, separate the rights of land ownership, land management, and land use, and on this basis to strictly define the powers, responsibilities, and interests of different bodies so as to form economic and legal relationships between all interested bodies. A fee-based land use system, land circulation and transfer system, land output distribution system, and land input system may be established on the basis of a new type of property rights relationship.

The establishment of a new type of land property rights system will have a positive impact on the development of China's commodity economy. This is because:

1. The dispersion of the land property rights relationship and the formation of multiple interested bodies utilizing land will not only be conducive to rational and effective land use, but also consistent with the requirements for developing a commodity economy.
2. The dispersion of the land property rights relationship and the formation of multiple interested bodies does not imply a weakening or elimination of the powers and functions of the body of land ownership. To the contrary, the formation of a new type of land property rights relationship will not only protect and maintain the land owner's basic rights and interests, but will also make it easier for the land owner to exercise effective supervision, administration, regulation, and control of the land with a view to using it rationally.
3. The fee-based land use system based on the new type of land property rights relationship will guarantee that

the body of land ownership is entitled to the land's output, so that ownership is realized economically. At the same time, the fee-based use of land is conducive to straightening out the economic and interest relationship between owner and user. Through a determination of the rights of land use, the user will have economic and legal responsibilities to the owner. This will make it in the user's interest to increase the efficiency of and returns on land use, and to treasure and protect land resources.

4. The new type of land property rights system will be conducive to subleases and transfers of land, and thus to the rational movement of the land factor. Reform of the land system should not only help to realize land ownership economically, but should also bring land use rights into the marketplace, so as to reconcile contradictions between supply and demand, allocate land resources rationally, and improve the efficiency of land use. Under the new type of land property rights relationship, the dispersion of the property rights and the strict definition of the responsibilities, interests, and powers of different interested bodies will provide a real possibility for the rational movement and socialized use of land. Under these conditions, high-quality land may be consolidated by enterprises or producers with good performance, who may generate greater benefits from using it. Low-quality land can also be developed and utilized rationally so that the aggregate benefits of land use can be increased.

5. Given a strict definition of interests, responsibilities, and powers, enterprises and production managers will be encouraged to increase land inputs and land value, thereby improving the efficiency and value of land use and formulating internal mechanisms for using land and land inputs.

6. Under the new type of property rights system, it is possible to develop land mortgages as a form of financing. Land mortgages use certain property rights to guarantee debt repayments, and they could become a major form of financing. Using land mortgages as a form of financing would attract funds (including a large amount of foreign capital) which could stimulate the development of financial, real estate, construction, and construction materials industries and promote the prosperity of the commodity economy.

7. The formation of a market for land-use rights is conducive to the growth and development of a market for production factors and to the further improvement of the market system.

Reform of the land use system is a rather complex project that requires strong and comprehensive complementary support. In order to advance this reform prudently and systematically, we must perform basic work in the following areas:

1. Establish and improve, at all levels, land administration organizations that enforce the functions of land ownership, and determine the representation of land ownership.

2. Establish in legal form a land property rights system under public ownership; disperse the rights of land ownership, management, and use; strictly define the powers, responsibilities, and interests of the owner, manager, and user, so as to form a relationship of economic and legal responsibilities between different bodies; and crystalize the relationship of land property rights by clearly defining property rights.

3. Establish a registration system for land-use rights and a system for land use and administration, to clarify who has rights to land use and to maintain a record of land leases and transfers.

4. Establish a system for evaluating land resources; appraise and decide the price of different lands; evaluate the appreciation in land values; and determine market prices of circulating land.

5. Land administration organizations at all levels must learn to use pricing and differential rents as levers for implementing state industrial policies and enforcing overall control, regulation, and management of the land circulation market.

Coase Theorem Seen Not Appropriate

91CE0601A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 3, Mar 91 pp 38-43, 51

[Article by Gao Hongye (7559 7703 2814): "Coase Theorem and Ownership System Reform"; the author's work unit is the Economics Department, Chinese People's University; the editor was Dong Xue (2639 7185)]

[Excerpts] Sometime ago, a popular theory in discussions on ownership system reform in China claimed that as long as ownership rights are clarified, the market mechanism can lead to high efficiency in the economy. The Coase Theorem, currently enjoying a surge of popularity in Western economic circles, arrives at a similar conclusion. I believe, however, that we cannot make the Coase Theorem the theoretical cornerstone for ownership system reform in China.

What Is the Coase Theorem?

In 1960 Ronald Coase published an article titled "The Question of Social Costs," giving birth to the term "Coase Theorem" in Western economics. Since Coase himself refused to give a precise definition of his theorem, there have been various interpretations, which differ in subtle ways despite broad similarities. The definition given here is an authoritative one closely related to ownership system:

"Provided the costs of exchange are zero, the distribution of legal ownership rights of assets does not affect the efficiency with which the economy operates." [passage omitted]

To explain the substance of the Coase Theorem as defined above, let us use a numerical example. Say there is a factory. The smoke and dust emitted from its

chimney damages the wash of five households living nearby, with each household suffering a loss of 75 yuan, or 375 yuan in total losses. Let us assume also that there are two ways to stop the pollution: install a dust filter in the chimney at a cost of 150 yuan or provide each household with a dryer so as to eliminate the need to dry clothes in the sun. Suppose a dryer costs 50 yuan apiece, which means that the total cost for all five dryers is 250 yuan. Clearly, the latter solution is more economical. Its lower costs makes it the more efficient solution. In Western economics, the most efficient solution is known as the Pareto optimum.

In the above example, according to the Coase Theorem as defined above, whether we give the factory the right to emit smoke through the chimney or whether we give the five households the right to dry their clothes in the sun without being polluted (that is, the distribution of asset ownership rights noted above,) as long as the negotiating costs incurred (namely the costs of exchange) during the negotiation between the factory and the five households are zero, then the market mechanism (free exchange) will inevitably come up with the most efficient outcome (that is, installing a dust filter.)

Why is this so? According to the reasoning of Western scholars like Coase, if the right to emit smoke and dust is given to the factory, that is, if the factory is free to emit smoke and dust, then the five households would join forces to install a dust filter at the plant. This is because it is cheaper to buy a dust filter than five dryers, and even cheaper than having one's wash polluted by smoke and dust (375 yuan). If, on the other hand, the households have the right to dry their wash in the sun without having them polluted by smoke and dust, then the factory will on its own initiative install a dust filter. The reason is that given the right of the households to dry their clothes in the sun without having them being polluted, the onus is on the factory to solve its pollution problem and installing a dust filter is the less costly solution. Thus, the Coase Theorem says that as long as the exchange costs are zero, the free market will always be able to come up with the most efficient solution and achieve the Pareto optimum irrespective of who has ownership.

Certainly, the conclusion of the Coase Theorem is only obtained when exchange costs are zero. Otherwise, the outcome would be different. For example, suppose the factory has the right to emit smoke and dust. If it takes a lot, say 125 yuan, for the five households to join forces and act together, then it would cost them a total of 275 yuan [as published] ($125 + 250 = 275$) [as published] to come together and have a dust filter installed at the factory. Under these circumstances, the five households would each go out and buy a dryer for itself since this will cost only 250 yuan. Clearly this is not the most efficient outcome. This by and large is what the Coase Theorem says. Coase himself never verified his theorem in any precise way, but merely elucidating it with similar numerical examples.

The Main Uses of the Coase Theorem in Western Economics

[passage omitted]

In the West, the validity and applicability of the Coase Theorem has been treated with considerable skepticism and has come under a good deal of criticism. At a minimum one can say that its validity and applicability are still in dispute.

Why the Coase Theorem Is Not Applicable to Discussions on Ownership System Reform in China

Ownership system reform is an important part of economic structural reform in China. Whether or not the former is carried out properly helps determine the success of the latter.

As noted above, the validity and applicability of the Coase Theorem are still being debated in the West, to say the least. This fact alone tells us that the Coase Theorem cannot be the theoretical basis for ownership system reform in China. Even if we leave aside the question of whether the Coase Theorem holds water and is applicable in the West, there is still the fact that the substance of that theorem basically has no relevance to ownership system reform in China. Its irrelevance can be proved in the following two ways.

First, ownership system reform in China is moving in the direction of the coexistence of multiple ownership systems, which means that one absolutely must not reject the existence of publicly owned enterprises. Yet there is simply no room for public ownership in the Coase Theorem. The Coase Theorem, as noted in Section 2 of this article, essentially seeks to prove that the market mechanism under the private ownership system can resolve in the most efficient way all problems that Adam Smith's "invisible hand" cannot resolve. That being the case, public ownership and any intervention by the state in the economy are both redundant and harmful. The author of a book in the West on property ownership wrote, "All public properties, according to Coase's analysis, must be abolished. Thus it becomes the law of the system of choice to have the ownership of all properties reside in private individuals." [passage omitted] It follows that if we accept the Coase Theorem and make it the basis for ownership system reform, we would in effect be calling for the total abolition of public ownership and the establishment of a full-fledged private property system. Such proposals would be totally at odds with what China seeks to do, which is to offer choices with a variety of ownership systems existing side by side. In fact, if we think the Coase Theorem is valid, there would be no need to talk about any kind of ownership system because the Coase Theorem already rejects public ownership.

Second, efficiency in the context of ownership system reform in China mainly refers to labor productivity. Other things being equal, the level of labor productivity is determined by the enthusiasm for work on the part of

the worker (or other individuals involved). Because the worker or other individual involved does not know the extent to which he owns the means of production, it is said, he has little enthusiasm for work. It is precisely for this reason that some Chinese scholars have been prompted to advocate the clarification of property rights.

Under the Coase Theorem, however, the most efficient state is what Western economists refer to as the Pareto optimum. Yet what passes for efficiency in this optimum is fundamentally different from the labor productivity we have in mind when we in China discuss ownership systems. Since the Coase Theorem is not compatible with this particular aspect of the conditions in China, it has no relevance to our discussion on ownership system reform. If we still apply it, we would be introducing something that is beside the point. Not only will such action contribute nothing to the real situation, but it may even do some harm. To illustrate this point, let us now take a look at the Pareto optimum.

This is how Western economists illustrate the Pareto optimum. In this optimum, there is no longer any method that can improve the welfare of a member of society without damaging the interests of another. Conversely, if there are still methods one can use, then the situation cannot be considered as having attained the Pareto optimum. In our example, no matter how property rights are distributed, as long as society adopts the solution of installing a dust filter (at a cost of 150 yuan), the Pareto optimum is deemed to exist. If the decision is to buy the dryers instead (at a cost of 250 yuan), then the Pareto optimum would not be considered to exist. This is why. When a decision is made to install a dust filter instead of buying the dryers, a saving of 100 yuan is made ($250 - 150 = 100$), whether by the households or by the factory owner. If the 100 yuan thus saved is then given to any member of society fully or partly, his welfare will increase, without, however, causing a decrease in the welfare of any other member of society. In fact in our example, the person who pays also enjoys a benefit because what he actually pays out is less than what he should pay out to begin with. Such is the Pareto optimum, the most efficient state. (Here we have used a simple example to illustrate the Pareto optimum. In the real world, circumstances are certainly more complicated.)

We can thus see that when Western scholars talk about efficiency, they mean allocating resources to carry out production in the least costly way so as to give the consumer maximum benefit. In our example, both dryers and dust filters can be regarded as dust-eliminating equipment. The cost of a dust filter, at \$150 yuan, represents the least costly way to eliminate dust, while freedom from smoke and dust pollution represents the maximum benefit for the consumer, that is, the five households. (It is assumed here that the consumer's most urgent need is to avoid pollution. If the resource of 150 yuan is spent to make candy instead of dust-eliminating

equipment, the consumer will achieve benefit to a certain extent, but not the maximum benefit because of our assumption.) Broadly speaking, Western economics, including the Coase Theorem, speaks of efficiency as making the things that the consumer needs most by means of the least costly allocation of resources. This kind of efficiency has nothing to do with labor productivity or the enthusiasm for labor on the part of the worker (or other individuals involved). Today the academic community at large, including Western scholars, have come to regard the oversight of research on labor productivity as a serious flaw in Western economics.

Since efficiency in the Coase Theorem is a different concept from what we have in mind when we in China talk about ownership systems, the Coase Theorem is not applicable to China because of our different national circumstances.

Things To Watch Out for When Applying Western Economics

Applying an invalid theory or applying a valid theory incorrectly can only lead to inappropriate conclusions or policies. And inappropriate conclusions or policies have harmful consequences for the state. Take the Coase Theorem, for example. As noted above, apart from its other fallacies, the Coase Theorem ignores the effects of income distribution. If we proceed to reform the ownership system guided by the theorem, the effects of income distribution overlooked by Coase may lead to a decline in productive forces and even social turmoil, with unthinkable consequences.

The Coase Theorem tells us that Western economics must be examined comprehensively and analyzed in detail. That is the only way to make a proper evaluation so that we can make use of it while avoiding the negative consequences of its application, all the more so in the case of an enormously popular theory because we can easily be misled into thinking that its popularity is a measure of its validity. But the fact of the matter is that in Western economics a theory may enjoy exceptional popularity not because of its validity, but because it conforms with the social thinking at the time. This may well be the case with the Coase Theorem. A well-known Western scholar, who has written a biography of Coase, wrote, "Whether the times makes the man or vice versa, historians have no firm answer. In this case (in Coase's case), the relationship between the two is clear. The times did make the man: Coase was fortunate in that his ground-breaking work on social costs (and costs of exchange) appeared at a time when public thinking was in a state of flux. But the man made the times too. His teaching turned an emerging tide into a rise in the water level."¹ In the past few years, there has been a shift to the right in global thinking. The Coase Theorem is both a part of this trend of thought and its consequence.

At the closing of this article, it must be pointed out it is not the purpose of this article to oppose ownership system reform, discussion revolving around ownership

system reform, or the introduction of useful Western teachings into our discussion. The point this article proposes to make is simply that it is not appropriate to apply the Coase Theorem to ownership system reform in China because it will have unfavorable consequences for China for the reasons outlined above.

January 1991.

Footnote:

1. "Ronald Coase," by Zhang Wuchang [1728 0063 1603], in *The New Palgrave's Dictionary of Economics*, Macmillan Press, London, 1987 edition, p 457.

Fudan Research Group Discusses Economic Problems

91CE0574A Shanghai FUDAN XUEBAO: SHEHUI KEXUE BAN [FUDAN UNIVERSITY JOURNAL SOCIAL SCIENCES EDITION] in Chinese No 2, 15 Mar 91 pp 2-9

[Article by a discussion group at the Economic Research Center, Fudan University: "China's Current Economic Difficulties and Their Solutions"]

[passage omitted]

[Excerpts] II. The Market Slump and Structural Adjustments

13. The slump in the market stems first of all from reductions in quantity, but inadequate aggregate demand is only the surface layer reason or the inducing factor. This is because prior to 1988 the aggregate demand was excessive, single currency surplus purchasing power (ready money plus savings) was more than 500 billion [yuan], far in excess of the aggregate supply. But in 1989, there was a drop of more than 300 billion, and in 1990 another 300 billion [yuan] was put into circulation. A Ministry of Commerce survey of 600 commodities showed that at present the market supply and demand equilibrium is 60.3 percent, with supply exceeding demand and supply being unsuited to the demand by 22.4 percent and 17.3 percent respectively. This indicates that the current market supply and demand quantities are basically returning to normal. If we say that the slump is purely aggregative, then in the final phase the market must go when prompted. Actually, we have only to glance at the market to discover that: products of fine jade are everywhere one looks, fulfilling the demand for high quality, and setting new sales records; where supply and demand do not match, there are inferior, obsolete and unmarketable goods. This shows that the frequent market slumps we find so puzzling are an illness which is the composite of many reasons, and the chief reason or inherent cause of this illness basically is a structurally flawed market supply and demand, showing the contradiction of a production-supply structure unsuited to the sales-demand structure.

(1) Consumer Demand Structure and Income Structure

14. Before the reforms, we basically made something, supplied that something, and sold it. The production supply structure determined the sales demand structure. Since the reforms, along with increases in product abundance and incomes, consumers' margin and power of choice has increased greatly. Societal consumption must first turn around and function as a production guide before the consumer demand structure will change and become independent of the production demand structure.

15. For various reasons, some obviously unsuitable situations have emerged during the changes in China's consumption structure. The chief characteristics of these are:

(1) Consumer demand tends towards uniformity or duplication. First, domestic households' consumption for living is basically all arranged according to a sequence and scale of eating, wearing, using and living. Second, for some expensive consumer goods (such as TV sets, recorders and washing machines), they show a uniform fervor for pursuing these and striving for them. With this, a pattern of unrestrained consumption appears in society as a whole, with everyone rushing headlong to buy and breaking up in an uproar. This phenomenon of uniform or duplicative consumption often puts the market in a position of being pounded by a cycle of flooding and ebbing.

(2) Consumer desire to "lead" or be "first." According to the regular pattern of consumption, consumer demand should be along levels of subsistence, growth and enjoyment, upwardly growing and expanding. Generally, when per capita income is about 2,000 yuan, people cannot strive for recreational materials, but first must solve problems of food, clothing, housing, etc. However, due to the phenomenon of consumer upward mobility and the effect of trend-setting, China's domestic consumers demonstrate a preference for being economical in their everyday spending, so as to accumulate modernized "major items," the pursuit of what is in fashion.

(3) Because of an illogical welfare system, welfare benefits range widely. Some consumers have too little money to spend on such things as culture and entertainment. Some consumers get such things as public services and housing almost free of charge, or say that their spending is still not commercialized and monetized.

16. There are many reasons for this misshapen consumption structure. A few examples are: consumers' attitudes, preferences and habits, prices, welfare and the system of procurement, production and marketing. However, a major reason is an inequitable income distribution structure.

China's income distribution structure has changed during 10 years of reform. But distribution is still not normal throughout society; it is not the olive shape where the two ends are small (the high and low income

levels) and the center is large (the middle class). It is also apparent that on the one hand, a part of the people have become rich, pulling the income gap further apart; on the other hand, the tendency to equalitarianism is still unchanged. For example, a random survey of 500 Shanghai households showed that in recent years the income gap between the highest and lowest households has grown steadily (see Table 3). This growth is due to a small number of people attaining early affluence, while the great majority have remained at the lowest level of equalitarianism, in illogical income categories. At present, approximately 700 billion yuan (current income plus savings) of currency purchasing power is concentrated in the hands of a small number of people. Those who grew wealthy early (including those who got rich quick) derived their income mostly from "grey income," while some was from "black income." Equalitarianism seems impartial, but is in fact very inequitable. Because its contributions to each level or to each person cannot be made proportional, we have "mind and body are hung upside down," and eating from the "big iron pot," with no sign of distribution according to labor. Due to a small number of wealthy people setting a high consumption example, the great majority followed them, seeking second jobs, pursuing "grey incomes." Therefore, everyone went up and down together, creating surging waves of uniform patterns of consumption and demand.

Table 3: Difference Between Highest and Lowest Income Households (In Yuan)

Year:	1986	1987	1988	1989
Income Gap:	1,066.80	1,308.48	1,668.80	1,904.28

(2) Production Supply Structure and Industrial Structure

17. The product mix is wrong. On the one hand, what is manufactured and how much is controlled by plan and regulated by the market. Some "leading cadre projects" are decided by the will of senior officials, and are uncontrolled. Therefore, these products continue to exist through shortages and surpluses, and are difficult to control through market supply and demand. As often as not, those in short supply become even more scarce, and those which are oversupplied become even more surplus. For example, in the past few years competition for imports, for such items as color TV's, refrigerators, and washing machines there were more than 100 production lines. On the other hand, most of the products are of inferior quality, with no innovations. Some models have been unchanged for decades, are obsolete and aging. A minority of our products are famous, special, superior or new.

18. The product mix is illogical. First of all, there is an imbalance in the overall structure of the three industrial levels. In primary industry the foundations of agriculture are unstable. Tertiary industry is seriously backward, especially in its financing, trade and real estate aspects. Some service industries have also fallen behind. Next is the loss of control of the small structure among the

various businesses which are under industrial departments. This appears in the enormous size of processing industries, such foundation industries as resource, transport and communications, and raw materials industries are weak, so it is difficult to sustain their growth along with the processing industries. This becomes a "bottleneck," restricting the development of the entire domestic economy. In the processing industries, the proportion of consumer product industries to investment commodity industries is not strictly regulated, nor is the proportion of durable consumer products to basic necessities commodities in the consumer product industries.

19. The structure of enterprise organizations or industrial organizations is dispersed and solidified. Large- and medium-sized state-owned enterprises have a relatively high degree of manufacturing concentration and share of the market, but still have not attained the scale of economic standards. Medium- and small-scale collective enterprises, village and township enterprises, private enterprises, etc., are even dispersed in their operations, and compete freely. Enterprises at every level which are subordinate to or a part of their responsible department, are either administrative monopolies or are simply permitted to compete freely or semi-freely. Therefore, enterprises cannot go into bankruptcy, and there is no superior-inferior type market takeover in or among enterprises; each large, medium and small enterprise does things in its own way. Even though recent years have seen the emergence of so-called enterprise groups, most of these are just loose or semi-close lateral economic alliances, and not yet a layer of free legal entities; some are even refurbished versions of administrative companies. Due to the dispersal and hardening of this organizational structure, there is too much monopoly and too little competition, which often hinders adjustment of enterprise structure and the product mix.

(3) Market Supply and Demand Patterns and Their Regulation

20. In the period of expansion before retrenchment, twisted consumption patterns misled patterns of production, creating a false demand and boom. It seemed like no matter what was produced, and no matter how much of it, demand could not be satisfied, and everything was salable. Sometimes things sold out quickly regardless of quality. This false front covered up the contradictions in the supply and demand structure. When retrenchment began and control and rectification was implemented, these contradictions became apparent. After the situation stabilized and consumption cooled off, people found that a great many products in the marketplace were not things they needed after all, and they didn't want to buy them anymore. Consequently, in using estimates of their income and expenses, consumers began living within their means, with a new emphasis on picking and choosing according to need. So far, consumption attitudes, behavior and patterns are all returning to normal. However, production patterns are still hardened and ossified in their system. Enterprises are so reliant on administrative organizations they

cannot adapt themselves to changing circumstances. Prices do not reflect supply and demand, and mislead market information. So, while the pattern of consumers' selecting and buying commodities is changing, producers are still supplying these commodities according to the original pattern. The result of this is that the market's structural weakness is unavoidable, and temporarily difficult to strengthen.

21. Since the market's weakness is chiefly structural, the way to spur the market and break out of this difficult position is through adjustments to the structure. An overall spur is already under way, and if unsuitable it can be stopped; but this would throw out all prior accomplishments of control and rectification, and might repeat anew the vicious circle. Structural adjustments should work along two lines: on one hand, it should use income policies to regulate consumer demand patterns, while also regulating production supply patterns through industrial policies.

22. Income policies are wage-price policies. Along with the function of consumer demand, the two main factors influencing demand are income and prices. When incomes increase, so does demand, the two factors changing together and in the same direction. When prices fall, demand goes up, the two factors changing in opposite directions. Therefore, according to the demand's wage and price elasticity, we can regulate supply through income and prices, spurring the market and guiding consumption.

First of all, adjust wages to increase income. Keeping to the principle of distribution according to labor, smash equalitarianism, and progressively correct unfair distribution. (1) While increasing absolute income, increase relative income. This will increase the distance between the income classes at each level, adjusting uniform consumption patterns by differing the income structure. (2) Stabilize future incomes or estimated incomes, and through these regulate the existing period of expenditure; this will avoid consumption and the market operating in waves. Specifically it will control the wage increase rate, making it greater than the price inflation rate and smaller than the rate of increase of the labor production rate, making for more stable increases in income and a restraining mechanism. (3) Normalize or restrict "grey income," and abolish or confiscate "black income" through legal means.

Next, correct inequitable price relations, and relax wage-price controls. On the one hand, continue to choose a policy of "price supports" for those necessities of life which have a smaller demand elasticity. But we should progressively decrease financial subsidies until they are eliminated. Prices should be raised for such agricultural by-products and related commodities as grain, cloth, meat and fish, and through corresponding increases in incomes, turn blind subsidies into clear subsidies. In another regard, for those medium to high cost consumer products which have fairly high demand elasticity, such

as color TV's, freezers and washing machines, in addition to continuing the choice of a policy of "restricted prices," we should now lower the market price, to stimulate consumer demand and spur the market.

23. Industrial policies, including policies on industrial structure and industrial organizations. Because the product supply and demand structure determines the industrial structure and enterprise structure, it is only through the latter two that we can adjust the product supply and demand structure and give an impetus to the market.

First of all, have every industrial department implement preferential credit and financing policies for such basic industries as agriculture, energy, communications and transportation, etc., and make key investments for housing construction and other newly emerging industries; this should include preferential rates of interest and taxation. Increase investment in public projects and basic industries; this will not only adjust the industrial structure and the supply and demand structure, but also increase employment and income. This will stimulate demand and spur the market.

Next, for different enterprises within the same industry, implement preferential credit and financing, low tax and interest rates, which are highly supportive but low in their restrictions. In survival of the fittest-type competition, let the superior enterprises take over the inferior ones, forming corporate or group organizational structures. It is through such a dual enterprise structure that unsalable, inferior products will be weeded out, and reputable, special, superior, new products will increase. This will adjust the product structure and provide a spur to the market.

III. The Market Slump and Further Reform

24. On the surface, policy layers are structured incrementally, but their illogical foundation is structured cumulatively. In adjustment of the capital reserve structure, even the disposition of core resources is systematic. It normally has two systems of adjustment or styles of transformation: the first is by plan, that is through administrative orders, with power centralized early but shutting down and shifting to the groups of enterprises later on. China's adjustment of the early 1960's was like this. The second is via the marketplace, that is through competitive price mechanisms that cause some enterprises to fail, and afterwards through enterprise competition and the mechanism carry out cumulations of core capital. One standard for judging a system's effectiveness is whether it has the structure to turn over power. An example is the market economy, which was once tightened at the macroeconomic level, but which can adjust itself at the microeconomic level. China's traditional method of administrative changeover is expensive, and comes at great cost. The present "dual track system" can neither transform the system through market competition, adjusting the structure, nor can it readily achieve

shut-down and turnover through administrative measures (because present conditions are not like those of the early 1960's). Thus, the market has been in a slump for a long time, and the efficiency rate of resource allocation and core disposition is extremely low, with more than one-third of our state-run enterprises showing a deficit. There is only way of breaking out of this predicament: use the opportunity presented by the market slump to further reform. Returning to the old system or maintaining the current "dual track system" presents no way out.

(1) The Commodity Economy System and the Market Economy System

25. Traditional economic theory denies that a relationship exists between commodities and currency in socialist societies. It holds that a socialist economy is either a commodity economy or a planned economy. In the 1980's, we achieved a theoretical and practical breakthrough that was a first: we acknowledged that a socialist society had commodity production and commodity exchange, and proceeded to the next step, acknowledging that a socialist economy is also a commodity economy, i.e., that it is a planned commodity economy. This first-time breakthrough led to a decade of reform, opening and development, and brought with it some major changes in the Chinese economy.

Now, the topic of a socialist commodity economic system is basically established, but still unacknowledged is the view which holds that the market economy is the mechanism driving the commodity economy. People still equate such things as a market economy with capitalism, regarding it as an exclusive force, or something alien, to be used only for awhile. This "market phobia" has impeded advancing reform, and has made it difficult to break out of our predicament. The development of theory and practice require that we make a second breakthrough: courageously and boldly acknowledge the "three-in-one," unified nature of the socialist basic economic system—the socialist commodity economic system—and the socialist market economic system.

26. Commodity economics and market economics both originated and evolved from natural economic developments. The two have a common predecessor—natural economics, a self-sufficient economic form. Because it depends on a low level of production forces at the time, the products manufactured can only satisfy one's own needs. Along with the development of higher forces of production and the division of labor in society, surplus commodities gradually began appearing for exchange. Used in exchange or for exchange and manufactured products transformed into commodities, the exchange process, relationship and arena form the market. As Marx said, "Due to the division of labor in society, the market for these products grows wider every day; the division of work in manufacturing labor causes each of them mutually to become commodities, and mutually become equivalents. It makes them mutually become the

market!"¹ And as Lenin said, "Wherever there is a division of labor and commodity production, there one finds a market; to the degree which societal division of labor and commodity production are developed, the market will be developed to the same degree."² One can see that commodities and market, and thus the commodity economy and market economy, came into being on the same foundation, i.e., the division of labor in society. The two are identical economic forms which convey different angles and different levels: from exchange objectives, they appear to be commodity economics, and from exchange relationships they appear to be market economics; from the economic system they look like commodity economics, from the economy's drive mechanism or coordinating mechanism they look like market economics.

27. In very recent times, market economics has been correspondingly spoken of with centrally planned economics. In Western nations, uncontrolled economies are called market economies in order to distinguish them from socialist planned economies. As time passes, market economies have become roughly synonymous with capitalist economies in people's minds and opinions. Commodity economics is correspondingly spoken of as product economics. Socialist nations in the early stages of reform shun capitalism, not even daring to speak of market economies, so they just say commodity economies. But in reality, market economies and commodity economies, planned economies and product economies, these two categories are identical when looked at from the standpoint of resource allocation methods. Whether market economy or commodity economy, it is the value distribution method which guides society's resources, i.e., production, circulation and distribution are regulated by the law of value and the price mechanism. Whether traditional planned economy or product economy, it is the administrative distribution method which guides society's resources, that is, the total work of society is allocated and distributed by administrative orders from plan authorities. Therefore, viewed from the angle of the socioeconomic driving mechanism and coordinating mechanism, market economics is not exclusively capitalism's; socialism can also be market economics. The fundamental difference between socialist market economics and that of capitalism lies in the system of ownership of each is based on, as well as the distribution system and manifest production relationships which that system determines.

(2) Monopolistic Competition Market Economics

28. People fail to recognize planned, product economics as market economics because they regard the latter as unplanned, free economics, that is, freely competitive or totally competitive market economics. Actually, market economics was a development in itself, and leaped over free competition early in its evolution. The plan functioned as a control measure and management form, embodied in the modern market economy at an early

stage. The plan is by no means a feature unique to socialism, just as the market is not exclusively capitalism's. [passage omitted]

(3) Market Economies in Which Public Property Rights Are Clear-Cut

30. People dread market economics because they link it with private ownership. Most foreign scholars believe that behind market exchanges there actually are commodity ownership rights and mutual exchange of profits. Therefore it is not a market economy unless there are clear-cut private ownership rights to property.

We believe that market economics is not necessarily related to a private ownership system. This is because we can separate ownership rights from operational rights, just as capitalist societies separate interest-bearing capital from functional capital. Specifically, ownership rights to property (primarily meaning the key elements of production), sanction rights (e.g., transferring business), and that ownership carries with it the right to a portion of the profits. However, the right to possess, use and receive a portion of the profits from property, and the right to sanction products can be leased to an operator by contract. Therefore, only public ownership rights are clear-cut, and this can also be in a market economy, just as market economics are implemented after private ownership rights are socialized.

31. Under China's present system of public ownership, the responsibility for property rights is unclear. But this is not a problem of the public ownership system itself, and the limits on property rights relationships can be clarified through reform of the specific form of the public ownership system. For example, the system of state ownership of property is at present direct ownership in kind. If, through a system of stocks, it is turned into value ownership, from state control of the shares (investment shares or sample shares), and later contractually leased, then operational efficiency can be raised completely through market competition. Stock systems come in two forms: one centers upon the control of shares being scattered among individuals throughout society; its basis is still a system of private ownership. The second form is centered upon state control of the shares (the state representing all the people); the control of shares can still be by the legal person, and it is a system of public ownership. China should have the latter form, that is, the system which has public ownership at its center.

32. We recommend reform of the traditional system of ownership through a stock system, and on this foundation implement a planned, commodity economy in which public ownership rights are clear-cut, as well as a monopolistic competition market economy. If a market economy is completely competitive, then it will be entirely a private ownership system, as for example, in old-style capitalism; if it is completely monopolistic, then it will be entirely a public ownership system, as in traditional socialism. The monopolistic competition

type of market economy can be established in a mixed economy which is centered on a system of private ownership, for example in modern capitalism; it can also be established where multiple economic sectors coexist in a system of public ownership, as, for example, in modern socialism. This latter type of socialist, monopolistic competition type of market economy, centered upon clear-cut public ownership rights, awaits our putting it into practice and blazing new trails.

Footnotes

1. Ziben Lun *Marx, On Capital*, Vol. 3 p 718.
2. Liening Quan Ji *Complete Works of Lenin*, Vol. 1 p 79.

Analysis of Market Trends, Consumer Behavior
91CE0556A Beijing JINGJI YU GUANLI YANJIU
[RESEARCH ON ECONOMICS AND
MANAGEMENT] in Chinese No 2, 8 Apr 91 pp 1-4

[Article by Liu Yongqiang (0491 3057 1730): "On Current Market, Trends"]

[Text] 1. Reviewing the Market and Analyzing Its Current Status

Since the summer of 1989, while the industrial growth rate dropped month after month, the market slipped into a long recession and social commodity retail sales fell steadily compared to the past. While price-slashing swept the nation, with prices being discounted from 5 percent to as high as 30 percent, consumer enthusiasm for spending remained weak. The domestic market became increasingly sluggish as the months went by. Social commodity retail sales, which managed to grow 7 percent in July 1989 over the same month a year ago, fell 0.7 percent in August and 1.1 percent in September compared to the corresponding months in 1988. Color television sets, refrigerators, washing machines, cotton fabrics, woolen fabrics, soap, and laundry detergent were hot items in the panic buying in the summer of 1988. Between January and September however, their sales plummeted 10 to 40 percent compared to the same period in 1988. Most commodities registered a decline in sales, which was unprecedented in the past decade. For all of 1989, total social commodity retail sales increased 8.9 percent, 19 percentage points lower than the 27.8 percent rate of increase recorded in 1988.

By the spring of 1990, the situation described above remained more or less unchanged. Total social commodity retail sales stood at 403.9 billion yuan in the first half of the year, down 1.9 percent from the corresponding period in 1989. In the months after February, social commodity retail sales continued to slip, but by a progressively smaller margin and actually showed signs of a rebound. On a month-by-month basis, sales fell 5.6 percent, 4.9 percent, 3.3 percent, and 0.5 percent in February, March, April, and May respectively. A string of macroeconomic policies and measures adopted by the

state had begun to pay off. These were: 1) A large amount of working capital was injected into production, which enabled industrial production to turn the corner. 2) Reductions in savings deposits' interest rates served to stop the trend of lots of deposits going into the bank and served to encourage consumers to spend. 3) Restrictions on the purchasing power of social groups were eased as appropriate. This helped stimulate the recovery in consumption. After June therefore, the market showed the first glimmer of "growth." In that month, social commodity retail sales went up 1.4 percent compared to the same month a year ago.

Beginning in the second half of the year, market sales edged up month after month between July and November, rising 1.2 percent, 1.9 percent, 3.6 percent, 7.6 percent, and 10.3 percent respectively, over the corresponding months in the preceding year. But growth remained modest. After seasonal adjustments, social commodity retail sales expanded just 2.45 percent, 2.34 percent, and 1.1 percent in the first three quarters respectively. The growth was so modest that total social commodity retail sales for the first three quarters of 1990 were still 0.6 percent down from retail sales in the corresponding period a year ago. After we entered the fourth quarter, the vast rural market also began to show signs of an upswing. Total social commodity retail sales grew 10 percent or so over the same quarter a year ago, approaching the margin of growth in a normal year. While the market has not completely shaken off the recession, commodity supplies were plentiful and the market was operating steadily.

The current market recovery has the following two special features:

1) It is a mixed recovery. In some areas the recovery is vigorous; in others it is more modest. There are even areas where the recession has not hit the low point yet.

A) In regional terms, there are marked differences between the markets in the nation's three major regions: eastern China, central China, and western China. The markets in eastern and western China have been bouncing back smartly. In eastern China, social commodity retail sales would have hit 436.6 billion yuan by the end of 1990, up 2.8 percent over 1989. Corresponding figures for western China are 123.3 billion yuan and 2.5 percent. In central China, in contrast, social commodity retail sales largely held steady at the level a year ago, or 236.6 billion yuan. It is projected that social commodity retail sales in 10 provinces, municipalities, and autonomous regions would end the year with zero growth or negative growth. Of these 10 jurisdictions, five are provinces in eastern China. Liaoning showed a gain of just 1 percent; Zhejiang, 0.7 percent, Shanghai, -0.12 percent; Fujian, -1.8 percent, and Hainan, -3.8 percent. Four provinces are in central China. In Jiangxi, social commodity retail sales inched up 0.9 percent; Hunan, 0.3 percent; Anhui, 0 percent, and Hubei, -12.1 percent. Only Beijing saw a double-digit gain (15 percent) in its social commodity retail

sales. Of the five provinces with robust growth, four are in western China. They are Qinghai, 8.1 percent; Xinjiang, 6.9 percent; Ningxia, 6.6 percent; and Shaanxi, 6 percent. The remaining province is Shanxi, in central China, with 6.2 percent.

There is a host of reasons why the pace of the recovery varies from one regional market to another. Essentially it has to do with the industrial structure of the region, economic base, economic muscle, level of household earnings, level of consumption, and patterns of consumption.

B) If we look at the rural versus urban areas, the rural market is still in a recession because of a persistent downturn in purchasing power. The growth in rural commodity retail sales continues to trail that in urban areas.

There are three major explanations for the marked discrepancy in the pace of the rebound in rural sales and urban sales.

a) Peasant incomes have grown more slowly than those of urban households. In 1989, that is, the first year of economic adjustment, per capita incomes in rural areas grew 10.38 percent over the preceding year, 7.42 percentage points less than the gain of 17.8 percent in the social commodities retail price index for that year. In contrast, per capita earnings among urban residents rose 16.42 percent, just a bit lower than the rate of increase in the retail price index. Or take the first half of 1990, for instance. Per capita cash incomes among rural residents inched up a mere 1.7 percent over the same period a year ago. After discounting price increases, rural incomes actually fell 4 percent. During the same period however, per capita incomes among urban residents climbed 7.8 percent, far higher than the rate of price increases. It can thus be seen that income growth among urban residents has consistently outpaced that of rural residents. Hence the sharp difference in the rebound in sales between urban and rural areas.

b) The burden on peasants is also heavier than that on their urban counterpart, thus siphoning off some funds which may otherwise have gone into consumption. Studies show that Chinese peasants currently face six major kinds of burdens from three sources. The three sources are interpersonal relations, heavy debts, and endless financial levies of all kinds. Moreover, fees charged for miscellaneous services related to agricultural production are also on the high side. In the past few years in particular, prices of agricultural capital goods have been rising continuously at a rate notably higher than increases in the prices of grain and other leading agricultural sideline products. In contrast, inflationary pressures on urban residents are significantly less. Price subsidies shelled out by the treasury are massive after having expanded year after year. Most of the subsidies go to nonagricultural households. Urban residents enjoy transportation subsidies, subsidies for one-child parents,

and assorted subsidies for living expenses. Under the current system, rural residents have basically no access to these subsidies.

c) Peasants have different consumption priorities from those of urban residents. According to representative studies, the consumption priorities of peasants today are in order, agricultural capital goods, houses, weddings and funerals, and living expenses. It is inevitable therefore, that the revival of the consumer goods retail market in the countryside lags behind that in urban areas.

2) Against the backdrop of a general recovery, sluggishness lingers and stability coexists with shortages.

Another notable feature of the current market situation is that general sluggishness has been replaced by strong sales. Sales of popular, reasonably-priced goods are picking up. Not all of these popular products are high-quality, upscale merchandise. They are instead goods that suit people at different levels and patterns of consumption. They are priced in a way that is acceptable to consumers from different income brackets.

However, because of the ever-widening income gaps between households in recent years, high-income groups began to seek an array of upscale products. Moreover, to a large extent the panic buying of 1988 involved refrigerators, color TV sets, washing machines, furniture, and other durable consumer goods. This sent enterprises a wrong message. Many plants were misled into neglecting research and development of medium- and low-priced commodities, and blindly produced upscale goods in large quantities. Yet most Chinese are middle-income or even low-income. According to calculations based on data from urban family planning surveys, the middle to high income group and the high income group accounted for 100 percent of the increase in savings by urban Chinese in 1989. The share of the high income group was a high 98.49 percent, constituting almost the entire increase in savings, yet its share of the population was merely 17.34 percent, less than one-fifth of the population surveyed. In a certain sense therefore, market sluggishness is a function of putting the wrong products on the market, products for which there is no market demand. Right now what we have on the market is not an excess of commodities, but a relative shortage. Commodities said to be unsalable or overstocked consist mainly of commodities that are poor in quality but high in price and those whose prices are not in accordance with the market. It is precisely this discrepancy between product mix and consumption mix that has prompted people to say that "what looks attractive is unaffordable and what is affordable is unattractive." These days, it is the commodities that are both attractive and affordable that are breathing life into the market.

2. Analyzing China's Market Trends This Year

This is how we read the overall trend on the Chinese market this year. The market will climb out of the doldrums. Market recovery will quicken compared to the second half of 1990 but will still fall short of the level in

normal years. According to our preliminary projections, social commodity retail sales this year will increase about 11 percent, which is higher than the 2 percent recorded last year.

Market recovery is expected to pick up speed because:

A) Social commodity purchasing power will rebound, as shown in the following ways.

1) Wage adjustments in administrative and institutional units across the nation have been completed. Since late last year, some enterprises have also begun adjusting wages. As a result, the wages of urban households are expected to go up. In 1990, wages and other personal incomes increased about 12 percent over the preceding year and total payrolls grew 7 percent or so. This year, as industrial production gradually recovered with significantly fewer factories suspending operations or running at half-capacity, the incomes of enterprise workers will continue to increase. Preliminary estimates are that total payrolls would expand 10 percent over the preceding year.

2) The cash incomes of peasants are going up. A bumper crop was harvested across the board last year. It is estimated that the gross agricultural output value increased 5 percent over 1989. Grain output is expected to hit 860 billion jin, 5.5 percent more than 1989, which itself was a very good year, and cotton output will reach 83 million dan, up 10 percent over a year ago. Meanwhile, the state has adjusted procurement prices of subsidiary agricultural products by appropriate margins and unveiled grain storage measures: setting up a grain storage bureau and establishing a grain storage fund to ensure the stability of grain prices on the market, and increase peasant incomes. It is estimated that the agricultural and nonagricultural incomes of peasants will increase 6 percent or so in 1990 compared to 1989 and that total peasant incomes this year will go up 9 percent over 1989.

3) The purchasing power of social groups has bounced back. Since the second quarter of 1990, the state has steadily eased controls on some monopolistic commodities, thereby boosting social groups' purchasing power. Between June and November 1990, cumulative social groups' consumer goods retail sales rose 9.2 percent over a year ago, greatly exceeding the rate of increase in retail sales of household consumer goods. It is anticipated that there will be an approximately 14 percent increase this year in the demand for consumer goods on the part of social groups, an increase which is higher than the 6 percent rate of increase in 1990, and the growth rate of all social commodity retail sales.

4) Investment demand will gradually resume its upward climb, directly and indirectly stimulating consumption demand. Since the second half of last year, the state has adjusted the degree of retrenchment appropriately. Fixed assets investment in the state-owned sector has been increasing gradually. It rose 8.3 percent in 1990 over 1989 and, according to projections, will go up

another 13 percent this year. Assuming that 40 percent of investment will be converted into consumption, then the consumption demand will increase 21 billion yuan over that of a year ago. Based on empirical data, it takes 2 to 3 months for an increase in fixed assets investment to be reflected in the market. The increase in investment in the second half of last year was already translated into a clear upswing in market demand in the first quarter of this year.

B) Price Movements

Whether the market is brisk or sluggish is closely related to price movements. Normally, when prices are stable or falling, people hold off from making purchases and adopt a wait-and-see attitude. They are more inclined to buy when prices are rising than when they are falling. When prices are falling, consumers have little enthusiasm to buy. In contrast, when prices are rising, people will increase their purchases and may even start a round of panic buying. The panic buying of 1988 and market sluggishness of 1989-1990, two diametrically different types of market behavior, are exactly the result of different public expectations about prices.

With the price index inching up since the fourth quarter of last year, inflationary pressures will be notably greater this year than it was last year. 1) Price adjustment measures introduced by the state and localities since last year will have been implemented one after another. Based on our calculations, price adjustments last year will push up prices by 4 percentage points or so this year. 2) The scale of bank lending is growing gradually. For all practical purposes, the tight-money policy has been replaced by an easy-money policy since the fourth quarter of last year. New bank loans in 1990 amounted to 270 billion yuan while the money supply expanded by 35 billion yuan, which caused heavy inflationary pressures this year. 3) As the retrenchment policy was eased, the delay in the examination and approval of new capital construction projects was largely over. Capital construction will speed up in a big way. 4) Commodities whose prices rose last year are concentrated among articles of daily use, food, and civilian goods closely related to the daily life of the consumer. For this reason, the consumer will feel the impact of price adjustments more and more acutely. After a year of falling prices, the masses will now be more sensitive to price increases and therefore will increase purchases.

C) The consumer psychology is gradually returning to normal.

Apart from the lessening of public expectations about falling prices, as explained above, the return to normalcy of the consumers' psychology is also a function of the move by banks to lower interest rates (by a total of about 3.1 percentage points) on savings deposits twice last year, in April and August. Because of the successive lowering of interest rates, people now earn less in interest from their savings accounts. Thus savings, which soared in the years since 1986, will return to a more normal rate,

while a larger portion of household incomes will be translated into consumption. Moreover, apart from durable consumer goods, other commodities purchased during the panic buying of 1988 have been consumed. This bodes well for normal purchasing this year and will increase the share of immediate consumption.

D) The law of market cyclical movements

Based on calculations by departments involved, China's consumer goods market goes through boom and bust cycles, hitting a peak very four years. Last year the market reached the low point between the two peaks of August 1988 and August 1992. Right now the market is climbing out of the trough and is on the way up.

Be that as it may, we believe it will take some time for the market to completely shake off the recession. A boom is highly unlikely this year mainly because:

1) The market took a nosedive in 1989-1990, yet the economy was running rather slowly, resulting in a long time lag. The market will thus remain somewhat soft this year. Reinvigorating it will be a rather lengthy process.

2) Consumer psychology will not change in any major way this year. Given the reality in China today, the following conditions must be met before any sudden transformation of the consumer psychology can occur. First, a string of extensive price reform measures must be introduced. Second, the government must continue to drive down the interest rates on savings deposits by wide margins. Third, there must be a shortage of commodities, particularly daily necessities. Fourth, the money supply must vastly exceed what is normally needed to keep the economy growing. In view of the prudence and cautiousness of the government, these conditions are not expected to be met, with no consequent transformation of the consumers' psychology.

3) Overall prices will remain at a fairly high level, which will hold down consumption somewhat.

As noted above, rising prices may stimulate public buying. But they are also one factor holding down public consumption. In 1990, China's social commodity retail price index rose 3 percent, lower than the 17.8 percent recorded in 1989. Clearly, price increases have now leveled off, but only from the elevated levels of 1988-1989. In absolute terms, most commodity prices are not low and appear low only when compared to the inflated levels of the past. If you just look at the price index itself, clear inflation has disappeared, but prices have only dropped from what was previously an excessively high level. The fact of the matter is that China is still in a state of moderate inflation at the moment compared to the outside world and may experience double-digit inflation again at any time. It is only because the market is so soft that inflation is not keenly felt. Because prices remain at a fairly high level, consumption has been curbed to a point.

With the current market situation and its trends in mind, we propose that we continue to do a good job in the following three areas:

1) Increase fixed assets investment in such basic industries as energy, transportation, and raw materials. Build more employee housing and simultaneously push for commercialization of housing. We should prevent the misappropriation of cultivated land and at the same time, encourage both rural and urban residents to build houses. We should differentiate between different types of institutional purchasing depending on the unit in question. Restrictions on purchasing by enterprises and institutions that can improve work efficiency and have an ensured funding source may be suitably relaxed.

2) We need to ensure that funds are available to procure agricultural sideline products and energize the rural market. After the bumper harvest last year, the departments involved should make an earnest effort to do a good job of procurement and storage. They should make sure that procurement funds are available, especially funds needed in leading production areas. They should eliminate the use of "IOU's" as a payment method and stabilize the grain market. They should make sure that peasants have no difficulty selling grain and pigs. When grain prices are too low, the peasants suffer and we must avoid that kind of situation. We must ensure a steady growth in the real earnings of peasants so that their purchasing power will increase and the rural market will be reinvigorated.

3) We need to broaden the scope and amount of public spending on consumption. To increase commodity and noncommodity spending by the public, consumption policy and structure should be adjusted promptly. We should accelerate the commercialization of housing and reform the public health, education, and social insurance systems. The current scope of public consumption is too narrow and should be corrected.

Economic Growth To Exceed Targets

*HK1406120791 Beijing ZHONGGUO XINWEN SHE
in Chinese 0825 GMT 12 Jun 91*

["Commentary" by reporter Guo Zhaojin (6753 2156 6855): "China's Economic Growth Rate This Year To Considerably Exceed Planned Target"]

[Text] Beijing, 12 Jun (ZHONGGUO XINWEN SHE)—Since the beginning of this year, the Chinese economy has picked up quite forcefully, and industrial production has maintained its high-speed growth since the fourth quarter of last year. Accordingly, economists predict that China's economic growth rate this year will exceed the planned target by a big margin.

The gross national product [GNP] growth rate planned for this year is 4.5 percent, and the average annual growth rate during the Eighth Five-Year Plan is 6 percent. After calculating and analyzing this year's national economic growth, a team led by Liu Guoguang, vice

president of the Chinese Academy of Social Sciences, thinks that the GNP growth rate this year will be 8 percent.

The current Chinese economic situation continues to develop in a good direction. After making a comprehensive assessment of the economic operations in the previous four months, the State Statistics Bureau holds that the Chinese economy is in the "yellow light" area, which means that it is in a stage of basically stable growth.

The Chinese economic upturn finds chief expression in industrial production. As everyone knows, after our efforts to improve the economic environment and rectify the economic order in the fourth quarter of 1988, industrial production, affected by a slump market, fluctuated in a bottom gear circle for a time. Thanks to the series of measures taken by the state, the economy has extricated itself from the predicament of low-speed growth in the second half of last year and reached a double-digit growth rate in the fourth quarter. In the first five months of this year, industrial production grew 13.3 percent. The cause of the apparent upturn in production is the growing market demand. Optimistic about the prospects, the enterprises, which suffered a slump for a long time, paid close attention to production.

China had a bumper harvest last year. By the end of last year, the problem of "finding it difficult to sell grain" again occurred in many localities, leading to a drop in grain prices. As many problems remained unresolved, experts were worried that "low grain prices would hurt the peasants" and thus affect this year's grain production. Some people even warned: The Chinese economic problem in the 1990's will likely be in agriculture. Because the state has paid close attention to the grain issue, and adopted a series of corresponding measures, the crops this year, including grain and oil-bearing crops, have grown well and there are good prospects for a bumper harvest. If there is no extraordinary disaster in the near future, the nation's total summer grain output is expected to equal last year's level.

The weak market has recovered and is now turning to steady growth. The retail sales volume in the past four months grew 13.9 percent over the same period last year. Not only has the situation of negative growth in the previous two years been reversed but, after adjustment of price increases, the actual growth rate has approached the level in the same period of 1987 and 1988. Capital goods sales have also picked up.

Moreover, investment in fixed assets has increased: the banking credits situation, characterized by an appropriate scale and an increasingly rational credit pattern, is better than it was last year; prices are basically stable; and the import and export trade has increased to some extent. The aforesaid situation shows that the Chinese economy has extricated itself from the difficult stage of readjustments and entered the stage of normal operations and steady growth.

There are still some difficulties in the Chinese economy. A conspicuous manifestation is that, while the industrial production rate is steadily picking up, overstocking of enterprise products is also steadily increasing. By the end of April, the capital ratio of products by enterprises listed in the state plan had risen 22.6 percent over the same period last year. Moreover, the enterprise economic returns have not improved with the upturn in production. Nearly 40 percent of enterprises are still operating at a loss.

From here we can see that the strong upturn in China's industrial production since the beginning of this year is boosted, on the one hand, by market demands and, on the other, by the effect of instilling large sums of activating funds to enable industrial production to pick up. When the production level exceeds market demands, it will bring about overstocking which, with other factors, leads to a drop in enterprise economic results.

As a major country, it will not do for China not to maintain a certain growth rate in national economic production but an overheated economy will also cause great harm. The state primarily relies on monetary means to regulate and control economic operations and frequently adopts the method of tightening or relaxing money supply to regulate and control the operation speed of the national economy, which is a huge monster. Because all monetary measures have a lag period between their introduction and the production of the desired results and because there are many variables in economic operations, it is in fact difficult to precisely grasp the accuracy of relaxing or tightening money supply. This is the main reason why the Chinese economy has always fluctuated between an overcold and an overheated economy.

Last year, in a bid to activate production, the state repeatedly injected funds, resulting in the excessive growth of bank credits. The principal contradictions have been resolved, but new ones have emerged. The first is how to avoid a new round of "overheated economy"; the second is how to prevent high inflation from happening again. This is because facts have proven that it is undesirable to get high economic growth at the cost of high inflation.

Chinese economic policy makers noted these issues a long time ago and the guiding idea for macroeconomic regulation and control has shifted from activating production to preventing the economy from becoming "overheated." Experts hold that the current growth momentum is still normal but it is necessary to closely monitor and prevent the emergence of "an overheated economy" and inflation in the fourth quarter. Experts also propose increasing the contents of reform to achieve better economic results and improve the production structure.

State Survey Discovers Hundreds of Millionaires

HK1307061691 Beijing CHINA DAILY in English
13 Jul 91 p 2

[By staff reporter Yuan Zhou]

[Text] China has nearly 500 renminbi millionaires—most of whom live in the coastal regions, a recent government-sponsored survey showed.

After a one-year-long investigation into the top 90,000 individually-owned businesses across the country, the State Administration for Industry and Commerce (SAIC) found that more than 490 had over 1 million yuan (\$188,679) in registered capital.

Through what they called "repeated counter-checks," the SAIC officials discovered that some of the country's wealthiest businessmen had obscured their true net worth by claiming their businesses were collectively-run.

Some SAIC officials say the new figures are incomplete, implying the actual number of Chinese renminbi millionaires is far greater.

According to SAIC statistics, China now has 13.3 million individually-owned businesses employing over 20 million people. And 79 percent of the businesses are shops, restaurants or repair businesses.

Private businessmen earn two to three times more than employees in State-owned enterprises. A study last year showed that businessmen in large cities sometimes earn as much as 6,700 yuan (\$1,264) a year. Private businessmen in medium-sized cities were shown to earn an average of 4,500 yuan (\$849) annually and businessmen in rural areas an average 2,500 yuan annually.

SAIC officials stressed that the majority of these business people's earnings come from legal activities.

Government leaders are now urging private business people to invest their earnings in the expansion of production.

A top Communist Party official said recently that the private entrepreneurs, while becoming rich themselves, "should not forget about the nation and the masses."

China's private businesses have generated 48.2 billion yuan (\$9 billion) in revenue for the government in the past five years, according to SAIC figures.

More importantly, between 1984 and 1990, private enterprises created 18 million jobs without any investment by the State. This almost equalled the number of jobs created by State-owned enterprises which absorbed government investment of more than 130 billion yuan (\$24.5 billion) over the period.

PROVINCIAL

New Approaches to Shanghai's Reform in 1990's

91CE0564A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 4, 15 Apr 91 pp 16-20

[Article by Cai Laixing (5591 0171 5281), affiliated with Shanghai's Economic Planning Research Institute; responsible editor: Yun Yan (0061 7159): "Exploring New Approaches to Shanghai's Reform, Opening Up to the Outside World, and Development in the 1990's"]

[Text] As the 1990's is the last decade of the 20th century, during which time Shanghai is facing a series of foreign and domestic challenges and opportunities, we are at a key turning point toward either economic recession or invigoration.

I. Shanghai Should Set a Single Objective

In line with China's basic foreign and domestic economic development trends, Shanghai's strategic position and functions, and the Central Government's ardent expectations, the general objective of Shanghai's long-range planning should be to restore Shanghai from China's largest industrial and commercial city to China's greatest economic center and thus, turn it into one of the western Pacific's most important foreign economic relations and trade centers.

As a general objective, an "economic center" should include centers in fields, such as trade, banking, S&T, and information, and should actually be an intersection for the circulation of personnel, material, money, and information, and a distribution center for all key production factors, commodities, and manpower. Based on this, we have made tentative plans for four development approaches and 10 major practical targets as a rough blueprint for turning Shanghai into an economic center. Shanghai's four development approaches are as follows:

1. To double Shanghai's gross economic output: By the year 2000, our GNP should reach about 200 billion yuan, and our per capita GNP should be about \$3,000.
2. To make a major adjustment in Shanghai's industrial structure: By the year 2000, our tertiary industries should be earning 71.2-87 billion yuan, or about 40 percent of our GNP.
3. To make Shanghai's economy much more externally oriented: Our externally oriented economy (the percentage that exports contribute to our GNP) should be expanded from its current 34 percent to about 40 percent.
4. To steadily improve Shanghai's economic efficiency: By the year 2000, Shanghai's rate of technological progress (the percentage that technological advances contribute to our GNP growth) should have increased from its current 30 percent to 40 percent. Shanghai's capital- and technology-intensive industries and enterprises should have a higher percentage of modern equipment, and we should strive to raise overall labor productivity in Shanghai's state-owned industrial enterprises to 70,000 yuan.

Shanghai's 10 major practical targets are as follows:

1. Foreign trade export turnover (including entrepot trade): By the year 2000, Shanghai's export trade turnover should be about \$17 billion, and our gross foreign trade turnover should be about \$30 billion, or 15-20 percent of the China's. More than 50 percent of Shanghai's import-export trade should be in goods from other provinces and cities in China, i.e., from domestic entrepot trade.
- 2) Domestic wholesale trade: we should strive to make Shanghai's domestic wholesale trade account for about one-quarter of China's by the year 2000, so that we will become its biggest wholesale and interregional trade center.
- 3) Port handling capacity and merchandise turnover volume: By the year 2000, we should strive to make Shanghai's port handling capacity top 200 million tons, about one-half of which should be entrepot trade in merchandise from all over China. Shanghai's merchandise turnover volume should account for about 20 percent of the China's.
- 4) Market-oriented financing: We should strive to make Shanghai's market-oriented financing account for more than one-half of the China's by the year 2000, in order to turn Shanghai into China's biggest market-oriented banking center. Moreover, we should strive to have about 50 percent of the gross deposits of "the three kinds of foreign trade enterprises" throughout China in Shanghai banks.
- 5) Population mobility: We should strive to increase the passenger flow through Shanghai's train stations, seaports, and airports year by year, and keep a floating population of about 3 million.
- 6) Prices: We should fill up Shanghai's price "basin," keep Shanghai's prices higher than the national average, and function as a standard for price formation and fluctuation throughout China.
- 7) Wages: We should raise Shanghai's wages, in order to keep the average wages of our staff members and workers higher than the national average, and in line with Shanghai's position as an economic center with higher economic efficiency.
- 8) Interest and exchange rates: We should gradually turn Shanghai's interest and exchange rates into the biggest determining factor in China's interest and exchange rates.
- 9) Shanghai should become the center for all foreign and domestic general headquarters or branch agencies. We should strive to induce 30-50 percent of domestic large companies, large enterprise groups, and special banks to set up their general headquarters or branch agencies in Shanghai. Moreover, we should strive to induce foreign economic relations and trade agencies in China, such as foreign banks, multipurpose commercial agencies, transnational corporations, financial conglomerates, and foundations, to set up their general headquarters or branch agencies in Shanghai.
- 10) Market organizations: In the 1990's Shanghai should set up a number of national or local market organizations, such as stock and futures exchanges and job referral, accounting and auditing, notarization and legal affairs, and patent offices. Moreover, Shanghai should become China's information, advisory service, S&T, and cultural center.

If Shanghai can be reestablished as China's economic center in the 1990's, we will be able to take off again in

the early 21st century, compete in the Asian-Pacific region with the "four little dragons" as well as the "new four little dragons" (Thailand, Malaysia, Indonesia, and the Philippines), and become China's greatest urban belt, a huge world-class urban zone, and the most vigorous economic zone in the Asian-Pacific region.

II. Shanghai Should Explore Three New Approaches

In order to achieve Shanghai's economic development goals for the late 20th and early 21st centuries, we must combine reform and opening up to the outside world with development, by exploring new approaches to invigorate Shanghai and develop Pudong in the 1990's.

1. We Should Invigorate Shanghai Through Trade, Develop Modern, Large-Scale Trade, and Reestablish Shanghai's Role as an Economic Center

Based on a comprehensive analysis of the grim challenges and historic opportunities that Shanghai is facing in the 1990's, we should realize that a strategy of either invigoration through trade or trade promotion must become Shanghai's major focus for developing and opening up Pudong and invigorating Shanghai's economy in the 1990's. As used here, trade means market transactions in a broad sense, i.e., modern trade and circulation on a large scale, such as investment trade, commodities trade, real estate business, technology trade, and information exchange. A broad view of Shanghai's economic development foundation shows that Shanghai enjoys the exceptional geographic advantage of 6,340 sq km of valuable land, which was developed through foreign and domestic trade. Practicing a large-scale trade promotion strategy in the 1990's will enable us to make a major adjustment of our industrial structure, while invigorating our tertiary industries, increasing our differential land income, contributing to fundraising, and being a key way to resolve the contradiction of the severe shortage of primitive accumulation that we are faced with in the development of Pudong. Large-scale trade promotion is also an objective requirement for speeding up the development of Shanghai's externally oriented economy. Trade will be the key to Shanghai's prosperity. The basic idea should be to fully open up our industry and territory to both other parts of China and the outside world and, in particular, to expand our domestic and foreign entrepot trade, establish two major trade and banking cities in the 50-sq-km Pudong (East Shanghai) and west Shanghai, spur on Shanghai's overall invigoration by enhancing our trade function, and become China's biggest market and a key international market in the Asian-Pacific region.

Trade and market prosperity will be bound to result in the large-scale growth of our banking profession. As strong banking support is essential to the development of modern trade on a large scale, we should take the following steps: open up to foreign-owned banks in a planned way, and urge Chinese financial institutions to set up shop in Shanghai, in order to perfect our banking system; expand our indirect financing credit markets, in

order to strengthen the financing role of our banks through savings and loans; establish stock markets for direct financing, in order to strengthen the direct financing function of both supply and demand through stock transactions; enhance the regulation and control capabilities of central banks through the use of means of financing, in order to reestablish the relationship between public finance and banking. We should use market financing to closely coordinate our industrial capital with our financial capital, take the lead in becoming a market-oriented banking center, and gradually become more diversified, shareholding-oriented, and internationalized.

2. We Should Adjust Our Role as a Central City, by Setting Up More Satellite Cities, Strengthening Our Network of Cities and Towns, and Enhancing Our Urban Network, in Order To More Quickly Become a World-Class Greater Shanghai Metropolis

Most of the world's famous economic center cities are made up of a network of cities and towns and an urban community. In order for Shanghai to become the western Pacific's greatest foreign economic relations and trade center, we must look far beyond our current network of cities and towns, and make overall plans to break out of our traditional urban development strictures by becoming a great modern metropolis that is "diversified and reaches out and radiates in all directions and on many levels." Thus, we must take the following steps:

A. We must supplement our weaknesses with our strong points, and make good overall plans. The general idea should be to use our modern communications network as the framework, focus our efforts on expanding and invigorating our role as a central city, use our east and west international airports as our major construction axis, expand our urban industry toward both our northern and southern flanks in a planned way, set up a number of small- and medium-sized satellite cities, and turn Shanghai into a full-fledged "eagle" that can face the Pacific with a wholly new look and renewed vigor.

B. We must upgrade and develop our central city in a planned way, and enhance its multipurpose service functions. Central Shanghai, or "the heart of the city," is the first ring of the greater Shanghai metropolis. Its axis is the Huangpujiang and Suzhou rivers, and includes Waigaoqiao, Qingningsi (Jinqiao), and Lujiazui (the Huamu District) in the new Pudong zone, as well as the inner ring of the old city proper, for a total of 283 sq km.

C. We should gradually set up a number of multipurpose districts around the city center, as the second ring of the greater Shanghai metropolis. Their boundaries should be expanded from the inner ring of the urban district to include an area of about 500 sq km.

D. Beyond the multipurpose districts, we could turn counties into cities in a planned way, by gradually establishing five or six 30- to 50- sq-km satellite cities and 10 to 15 10- to 30-sq-km small cities, in order to centralize our currently decentralized industries and

service trades. Moreover, we should take active steps to establish closer economic ties to the urban complex in the Yangtze He Delta, in order to establish on a reciprocal basis a coordinated, multilevel, network-type Yangtze He Delta economic circle that is centered in Shanghai.

3. We Should "Develop Pudong and West Shanghai Together, and Achieve Both Internal and External Circulation," in Order To Gradually Evolve New Economic Operating Forces That Dovetail With Both Foreign and Domestic Markets.

"Joint development of Pudong and West Shanghai, and achieving both internal and external circulation" is a general joint development approach, with both internal and external circulation being the condition, and joint development of Pudong and West Shanghai being the key. In order for the new Pudong zone to have an ownership structure that includes mostly "the three kinds of foreign trade enterprises," products that are mainly for export, and an economy that is primarily externally-oriented, Pudong must practice a new system that is guided by planning but based on market regulation, dovetails with the international market, and adheres strictly to international economic rules. System and policy differences, the enormous shock to west Shanghai that Pudong's development is bound to cause, and the clash of interests between Pudong and west Shanghai due to friction between the new and old systems and policy differences, are likely to become major puzzling contradictions in Shanghai's economic development in the 1990's. Thus, we should gradually increase Pudong's degree of development on one hand, while speeding up the transition from the old to the new system in west Shanghai on the other, so that we can reform and open up to the outside world level by level, in order to gradually establish a new pattern of economic development that has external ties to the international market and internal ones to the Yangtze He valley and the whole domestic market. Our general joint development should be divided into the following three levels:

A. Joint development of Pudong and west Shanghai: This includes the three areas of a dovetailed multilevel model for opening up to the outside world, a model for joint development, and coordinated regulation and control forces. The key to this is the establishment of a new system model to link Pudong to west Shanghai.

B. Joint development of Shanghai's and China's economies: This will form a new basis for coordinating the economies of the Yangtze He Delta and valley, through developing industries with complementary externally oriented economic functions between mostly Pudong and the Yangtze He Delta, and improving, consolidating, and expanding the lateral economic links between Shanghai and the rest of China, the Yangtze He valley in particular.

C. Joint development of Shanghai's economy with the international economy: The main idea here is to revise Shanghai's export strategy and international marketing

tactics for the 1990's, take full part in Asian-Pacific economic cooperation and industrial division of labor, make an overall improvement in our investment climate, and begin to form a good cycle for our externally oriented economy.

III. Shanghai Should Take Six Steps

In order to fully implement our strategy of "large-scale trade, becoming a great metropolis, and general joint development," and achieve Shanghai's major strategic economic development objective for the 1990's, we must closely focus our efforts on the key task of improving our economic efficiency, make reform, opening up to the outside world, and development a coordinated process, and take certain key strategic steps that will resolve our particular problems.

1. We Should Take Advantage of the Development of Pudong To Make a "Great Tactical Improvement" in Our Urban Infrastructure, Stimulate and Develop Our Markets, and Create a New Environment for Shanghai's Economic Development in the 1990's.

In the 1990's, Shanghai should continue to invest increasing amounts of money in developing our urban infrastructure and relevant facilities for tertiary industries, focus our priorities on our communications and transportation systems and key banking, trade, and trade fair facilities, and speed up our construction and completion of certain major projects. Over the next decade, we should plan to increase our infrastructure investment from 20 percent to 30 percent, and our investment in tertiary industries from the current 36 percent to 50 percent. In the next decade, we should focus our efforts on building key projects, such as Huangpujiang He crossings, subways, airports, seaports, trade fair facilities, and water, power, and gas infrastructures.

2. We Should Employ Both Shanghai's S&T Advantages and Technology Imports, Make Our Three Major Priorities Industries That Produce High-Grade Import Substitutes, Medium-Grade Exports, and Are Forerunners in the Field of Domestic Consumer Goods, and Vigorously Adjust Our Industrial Structure

Our strategy of large-scale trade, becoming a great metropolis, and general joint development, absolutely does not imply that we mean to weaken Shanghai's solid industrial base. Rather, it means that large-scale trade will be our market orientation, becoming a great metropolis will be our backing, and general joint development will be the basis of our industrial division of labor, and that we will give priority to effectively restoring Shanghai's competitive advantages by developing industries of scale. Our policy of medium-and long-range strategic industrial structural adjustment must fully reflect our guiding ideology of emphasizing development of industries that produce high-grade import substitutes, medium-grade exports, and occupy commanding positions in the field of domestic consumer goods flow. Moreover, it should be based on technological advances, rely on the development of Pudong, and change in a

planned and step-by-step way Shanghai's industrial structure that has too few industries producing import substitutes, too low-quality export-oriented industries, and trouble conforming to the new tide of domestic consumption.

The key to our industrial structure conversion will be to draw up an effective industrial policy. The key item in our industrial policy for the 1990's will be to organize and guide all industries and enterprises to close up ranks behind developing the three types of industries to which we are giving priority. Our priorities should be as follows: 1) to make full use of the technological base and many research achievements of Shanghai's existing developing industries to help upgrade outdated industries and equipment; 2) to take full advantage of Pudong's open policy and superior investment climate, by encouraging enterprises to use foreign investment extensively, in order to quickly form a group of enterprises that are suited to the development of our three types of priority industries; 3) to actively promote a policy of joint development of Pudong and West Shanghai, by combining upgrading of the old city of west Shanghai with land displacement in our "financial district," and moving a number of outdated enterprises to Pudong to be upgraded and invigorated in a planned way.

3. We Should Proceed From Our Existing Capital Base To Further Banking Reform by Actively Developing Money Markets and Raising Funds in Diversified Ways.

Throughout the decade of reform and opening up to the outside world, a shortage of funds has been the most glaring limiting factor in Shanghai's economic development. Based on Shanghai's particular features, our fundraising should adhere to the principle of "combining self-reliance with striving to obtain foreign aid," and our borrowing methods and forms must combine international, domestic, and fund sources from Shanghai, and take full advantage of initiative in the five areas of national, local, overseas, enterprise, and individual, in order to ensure the achievement of our fundraising objectives.

1. We should practice compensated land use, and use land displacement from west Shanghai to Pudong to clear out west Shanghai's "financial district" for wholesale land rental, in order to strive for the greatest differential land rent gains.

2. We should develop our real estate market, by selling some office buildings, housing, and commercial space, in order to raise construction funds. 3. We should relax our foreign investment control, draw up policies to attract domestic investment, and take active steps to attract both foreign and domestic investment.

4. We should actively sell stocks and bonds, in order to develop our stock markets.

5. We should establish a Pudong Development Fund.

4. We Should Use Housing, Nonstaple Food, and Social Guarantee Reforms as Leverage, and "Joint Venture Grafting" To Promote a Shareholding Economy and Extension of Pudong's Policies as the Means, To Speed Up Reform Within Large- and Medium-Sized State-Owned Enterprises, and Gradually Evolve Inherent Microeconomic Stimulation and Restrictive Forces.

Large- and medium-sized state-owned enterprises are the pillars of Shanghai's national economy, our major source of revenue, and the key to our continued large-scale development. As Shanghai needs in the 1990's to take a bigger part in the international division of labor, develop an externally oriented economy quicker, and make a strategic transition, we must use housing, nonstaple food, and social guarantee reforms as leverage to deepen reform within enterprises and put the focus on our microeconomic foundation, in order to help our large- and medium-sized state-owned enterprises out of their present difficulties and spur on Shanghai's healthy economic development.

A. Aimed at achieving a better economy of scale and enhancing our competitive capability, we must take the necessary administrative steps to actively build a new organizational structure for Shanghai's economic activity that is focused on large- and medium-sized enterprises, improve our specialized coordination network, and enhance our specialized coordination advantages.

B. We must take a modern enterprise incorporation system as our goal model, by actively promoting a shareholding system, and using the form of limited-liability companies to attract extensive investment by all domestic provincial and municipal governments and enterprises, certain enterprises that are affiliated with the State Council, enterprise staff members and workers, and the public, as well as overseas companies and enterprises and foreign financial institutions, in order to greatly expand Shanghai's business capital sources.

C. We must motivate more large- and medium-sized enterprises to "graft themselves onto joint ventures," by using foreign capital and imported technology and management skills to enhance their ability to develop new products and engage in market competition.

D. When organizing new Sino-foreign joint ventures and shareholding companies and enterprises, Shanghai could place all of them, part of them, or their general headquarters in the new Pudong zone, so that certain of Pudong's preferential policies could benefit these large- and medium-sized enterprises. Moreover, this would enable more of Shanghai's enterprises to take better advantage of the new Pudong zone's increasingly more favorable conditions in developing an externally oriented economy.

E. After their first round of contract management contracts expire in 1992, most large- and medium-sized enterprises should be changed over to the management

mechanisms of separation of taxes from profits and aftertax loan repayment and contracting, in order to roughly create for them a climate of equal competition with all other types of enterprises.

5. We Should Actively Explore New Ideas on Enterprise Organization, by Taking the Lead in Organizing a Number of Multipurpose Commercial Agencies, Interlocking Enterprises, and Transnational Corporations That Are Strong and Have Diversified Management, in Order To Make Shanghai's Enterprises Fully Competitive Internationally

As Shanghai's enterprises need better economies of scale so that they will be more competitive on both domestic and international markets in the 1990's, we must reconstitute or reorganize Shanghai's existing enterprise groups, and adjust their organizational structures on a large scale. We could consider screening out and selecting one-third (about 50) of Shanghai's 147 enterprise groups as leading enterprises, allowing them to break away from the administrative departments responsible for their work, set their own plans and agendas, amass and manage their own capital, contract directly with public finance departments, and have centralized bank credit, and merging them with other enterprises through forms, such as pooling capital, stock control, and owning each others' stocks, so that they can gradually evolve into independent corporations and large enterprise consortiums with coordinated capital management. We could accommodate the three specific forms or basic model options of multipurpose commercial agencies, interlocking enterprises, and transnational corporations.

A. Multipurpose Commercial Agencies: Based on Shanghai's conditions, multipurpose commercial agencies could be formed in Shanghai in the 1990's to become gradually multipurpose in the three steps of establishing, 1) multipurpose trading companies, 2) multipurpose financial corporations, and 3) multipurpose investment companies. In the process of establishing these multipurpose commercial agencies, ways should be found to attract participation by scientific research institutions and information and advisory bodies in collecting extensive market intelligence, establishing foreign and domestic information channels and networks, and investigating and studying markets thoroughly on one hand, while allowing direct developmental investment, diversified management, and organization, guidance, and coordination of production and circulation of all subordinate production enterprises on the other.

B. Interlocking Enterprises: The economy of a great metropolis needs to establish relevant interlocking enterprises within the ranks of its nontrade commercial service trades, in order to coordinate in time and space transportation, storage, and marketing, as well as tourism, hotels, and service. Shanghai could give the major consideration to establishing in the 90s the three types of interlocking enterprises of 1) interlocking stores, 2) interlocking hotels and, 3) interlocking food markets.

C. Transnational Corporations: In order for Shanghai to take advantage of the opening up and development of Pudong in the 1990's to "develop Pudong and West Shanghai together, and achieve both internal and external circulation," we will have to establish the relevant enterprise organizations, i.e., transnational corporations. Transnational corporations could evolve out of our existing large- and medium-sized enterprise groups in the three steps of 1) transindustrial and transdepartmental management, 2) transprovincial, transmunicipal, and transregional management, and 3) transnational management. In particular, we could choose large enterprise groups, support and back them up in all areas, and allow them to practice transnational management and investment, so that they could gradually evolve into transnational corporations.

6. We Should Emphasize Education, Speed Up Personnel Training, and Attract Large Numbers of All Types of Highly Talented Personnel, in Order To Meet the Needs of Invigorating Shanghai and Developing Pudong

Economic competition is actually human competence competition, and the challenge of the new technological revolution is primarily an educational challenge. Whether we can utilize our manpower resources effectively and bring our personnel advantages into full play, is likely to become the greatest inherent limiting factor in our ability to meet the challenges of the new world tide of technological revolution, full domestic reform and opening up to the outside world, and Pudong's development in the 1990's.

Premised on adhering to our socialist orientation, Shanghai's personnel development strategy for the 1990's should be to further reform, assume overall responsibility for changing our mechanisms, emphasize our personnel distribution and composition, improve our personnel proficiency and efficiency, and gradually form a new system of personnel management for Shanghai. That is, we should establish a mostly dual-option personnel management model that combines planned deployment and market regulation. Thus, we must establish new educational concepts, set up an open and diversified personnel training system, give emphasis to attracting intellectuals, become a "high ground" for attracting talented personnel, and begin to establish an externally oriented personnel training base. Our priority should be to establish in the new Pudong zone a new multipurpose university, i.e., Pudong University, which will be aimed at training all of the types of talent that will be needed, and will become a "Huangpu Military Academy," for Pudong's development and opening up to the outside world.

Managers Want Policies That 'Invigorate' State Enterprises

91CE0600B Shanghai JIEFANG RIBAO in Chinese
13 May 91 p 3

[Article by Ji Jingru (4764 7234 1172): "What 'Invigorating' Measures Do State Enterprises Welcome Most?"]

[Text] What "invigorating" measures do large- and medium-sized state enterprises want most? When they talked about the eight suggestions for invigorating large- and medium-sized enterprises drafted by the provincial party committee and provincial government, many enterprise directors and managers in Zhejiang Province particularly welcomed several measures for invigorating enterprises, and they hoped that they would be really implemented.

—Resolutely implement the "Enterprise Law." Departments concerned should thoroughly clean up the policies made in the past few years. All policies that are not in line with the "Enterprise Law" or with regulations made by the central and provincial governments must be revoked immediately.

—Further expand enterprises' decision-making powers. First, implement enterprises' production and management authority. If enterprises cannot receive the supplies of energy and raw materials they need to produce the mandatory products according to the plan, planning departments should reduce enterprises' mandatory production of planned products. The portion of products that was reduced can follow the policy of "guaranteeing quality without guaranteeing price." Second, enterprises have the right to determine product prices. Third, enterprises have personnel rights. According to the laws and regulations, enterprises can handle or fire employees who violate discipline. Enterprises have the right to determine their internal organizational structures and personnel placement freely and without interference of any departments. Fourth, enterprises have the right to determine salary distribution.

—Earnestly simplify and speed up procedures for examining and approving technical transformation projects. After a project's design is approved, all related items, such as environmental protection, fire prevention, labor protection and work safety, planning, land management, and epidemic prevention, must be fulfilled within the specified time. Key technical transformation projects should follow the practice in which office business is jointly handled and problems are solved in a concentrated manner so as to speed up technical transformations.

—Earnestly reduce enterprises' burdens. First, continue rectifying the "three disorders." As far as departments and work units which collect unreasonable charges and assign unreasonable shares to enterprises are concerned, we must ascertain their leaders' responsibility and deal with them sternly. Second, reduce the numerous and variously named appraisals, and adopt an appraisal and approval system. Enterprises have the right to refuse any appraisals which are not approved.

Shanghai Works Hard To Invigorate Enterprises

91CE0600A Shanghai JIEFANG RIBAO in Chinese
10 May 91 p 2

[Article by Wu Fumin (0702 1788 3046) and Chen Yani (7115 7161 1200): "Restore the Prestige of the 'National Teams'—Shanghai Goes All Out to Invigorate Large-, Medium-Sized Enterprises"]

[Text] "Invigorating large- and medium-sized enterprises" is a topic which has long been thought about. Today it has become the keynote in Shanghai's economic life. Leaders of the municipal party committee and the municipal government have been thinking deeply and devising strategies for it. Currently the top priority is to reverse the situation in which Shanghai's large- and medium-sized enterprises owned by the whole people have been experiencing a slump in development speed and in economic results. The goals are to check the slump this year, reverse the situation next year, and move out of the slump the year after next, so as to restore the prestige of the "national teams." Centering on this objective, all comprehensive departments concerned are supposed to plan and work out specific measures, and all industrial bureaus are supposed to work hard and make progress. In addition to introducing and implementing all kinds of related policies and measures, there is the first campaign to "invigorate large- and medium-sized enterprises," which is large in scale and down-to-earth.

The Focus for Invigorating Enterprises is on Management Mechanisms

More than 850 large- and medium-sized enterprises owned by the whole people are concentrated in an area in Shanghai that is 350 square kilometers in size. Both the profits and taxes from their output value account for about 70 percent of Shanghai's gross value of industrial output. They are important financial pillars for Shanghai, as well as for the state. However, in the past two years, the rate of production in Shanghai's large- and medium-sized enterprises owned by the whole people has dropped continuously. Their realized profits declined continuously for three years, dropping from 7.8 billion yuan in 1988 to 4.206 billion yuan in 1990.

The leadership of Shanghai's municipal party committee and municipal government maintains that the "slanted policies" of giving money and materials to large- and medium-sized enterprises may ease the difficult situation temporarily, but it is not the best policy for fundamentally invigorating these enterprises. The focus is to transform management mechanisms, making enterprises real socialist commodity producers, and making managers manage themselves and assume all responsibilities for profits and losses.

"Self-management" is the most important part of the management mechanism. Many industrial bureaus in Shanghai made a breakthrough on this point. Up to last year, there were still stipulations that cotton yarns must be allocated within Shanghai's textile industry alone.

This self-enclosed planning system lacked competition and suffocated the vigor of Shanghai's textile, printing, and dyeing industries. The entire textile industry is large, with 350,000 employees, and its retained profits have declined to 300 million yuan. Faced with this situation, Shanghai's Textile Industry Bureau took immediate action. At the beginning of this year, they allowed enterprises to manage themselves and to look independently for markets at home and abroad. This measure immediately saved a number of enterprises and initially formed a "microclimate," with multiple channels for stocking goods and multiple ports for exporting products. In the first quarter, the printing and dyeing industry completely reversed its losses and made profits. The comprehensive economic results of the entire textile industry recovered month by month.

In late March, Shanghai's Metallurgical Industry Bureau, which has a management model similar to that of the Textile Industry Bureau, also initiated reform. They released all rights to enterprises, including the rights to purchase out-of-plan materials, as well purchase materials within the plan that are in short supply; sell products; and manage production. Enterprises were allowed to choose the best materials for purchase; face the market directly and select buyers; engage in high-priced buying and selling; process investors' raw materials; transact large quantities of business; and conduct their own business independently. This move has made several big steel plants start to follow self-development and self-management strategies.

This year Shanghai has introduced several measures involving finance, banks, and taxation. All these measures are slanted towards invigorating large- and medium-sized enterprises, encouraging competition, and striving to make the pie bigger.

Earnestly Introduce the Competition Mechanism into Inter-Enterprise Relations

A brand new economic phenomenon has appeared in Shanghai's industries. It is quite notable that over 70 enterprises have registered enterprise mergers with higher authorities on their own initiative. This is quite different from the situation in previous years, in which enterprises feared mergers. Shanghai's municipal government also adopted a series of measures to support enterprise mergers, consolidations, and the development of enterprise groups. This is quite a contrast with the previous practice, which emphasized that "the big help the small, the strong support the weak, and the rich bring along the poor." Rather, it pursued the goal where "enterprises performing poorly must be helped, and enterprises incurring losses must be turned around."

At the beginning of this year Shanghai's municipal government explicitly said that enhancing the vigor of large- and medium-sized enterprises was an overall concept. It did not mean that every enterprise had to be invigorated. They earnestly introduced the mechanism in which the good survive and the bad are eliminated

into inter-enterprise relations. There is no mercy towards enterprises that cannot survive competition. In Shanghai, 108 enterprises have been merged, which not only turns the potential factors of production into economic results, but more importantly, renews people's ideological concepts in practice. A common understanding has been reached: the annexation of inferior enterprises by superior enterprises is a rational flow and optimal combination of the factors of production; it is an inevitable demand of the adjustment of both the product and industrial structures; and it is an effective way to raise overall industrial quality and economic results. It is this progress in people's ideological concepts that enabled enterprises to register for mergers of their own accord. Among these enterprises are large enterprises, with more than 1,000 employees, and famous enterprises. They do not like to linger on in a steadily worsening conditions. This year, 14 merged enterprises have a high starting point at the beginning. They do not simply "help inferior enterprises solve problems," but rather strive for superior enterprise development. Following the annexation of the Shanghai Ramie Mill by the Shanghai No. 7 Woollen Mill at the beginning of this year, technicians developed new ramie products, and entered the severe market competition. By the end of April, they had developed more than 30 thin ramie woollen fabrics. The enterprise's pie has become larger, and the problem of "overcoming difficulties" has also been solved.

Joint Venture "Grafts"—Important Thoughts About Invigorating Large- and Medium-Sized Enterprises

People have noticed the fact that when large- and medium-sized state enterprises had double-digit drops in their economic results, Shanghai's "three kinds of partially or wholly foreign-owned enterprises" [hereafter referred to as FIE's, or foreign-invested enterprises] had sharp, double-digit increases in their economic results. The major reason for this contrast is that large- and medium-sized enterprises' ability to compete in the market, and their mechanisms for adapting to flexible situations and changes are not as good as those of FIE's. Encouraging enterprises to use foreign funds and transform old enterprises through "grafting" are important ideas for helping enterprises change management mechanisms and for invigorating Shanghai's large- and medium-sized state enterprises. By the end of last year, Shanghai had established 717 industrial joint ventures and cooperatively managed enterprises, attracting \$1.221 billion in foreign funds. In the first quarter of this year, another 68 industrial projects funded by foreign investors were approved, which attracted \$100 million and surpassed the record for the same period in previous years. The gross value of industrial output of FIE's has reached \$6.4 billion.

FIEs are the enterprises which most enjoy the right of self-determination in China. After getting involved in joint ventures and "grafting," Shanghai's old enterprises that produced automobiles, elevators, motorcycles, and telecommunication equipment could produce Santana

automobiles, Xunda elevators, Xinfu motorcycles, Fukesipolou automatic meters, and Weigaogeli offshore oil-drilling equipment. In a short period, they have narrowed the gap with the world's advanced level, and have rapidly become the new generation of key industries and newly developed industries in Shanghai. This is a demonstration of how joint ventures have brought vitality and vigor to old enterprises, as well as a way of stimulating joint ventures to do so. This year more various and flexible forms of joint ventures appeared in Shanghai. Forming "enterprises within enterprises," some enterprises designate branches or independent workshops to establish joint ventures with foreign investors. Some enterprises take some workshops out of the production process to establish joint ventures. For instance, the Tenth Printing and Dyeing Mill designated its printing room and finished-product workshop as joint ventures, while other production workshops and service departments remained unchanged. These joint ventures and non-joint ventures are relatively independent, and engage in their respective production and management. On the other hand, they are also related to one another under unified production directives. Other enterprises are under three types of ownership. Within enterprises owned by the whole people, joint ventures and collectively owned enterprises coexist. Still other enterprises set up business overseas or establish parent companies with several joint ventures.

Actively Promote Enterprises' Internal Reform by Focusing on Enhancing Vitality

The task of deepening enterprises' internal reform has been put on the urgent agenda, regardless of whether it is in order to check the recent slump in economic results or to achieve the goals of developing Shanghai in the long run.

This year, in order to further expand enterprises' right to self-determination and reduce their burdens, Shanghai's municipal government has again made seven regulations. When both macroeconomic policy guidance and specific reform measures help enterprises transform management mechanisms, deepening internal reform becomes enterprises' self-conscious demand.

Enterprises owned by the whole people can hardly shoulder the burden of too many redundant personnel. The Second Textile Machinery Plant, Shanghai's role model for enterprise reform, was the first to engage in trial reforms at the start of the year. The reform involved labor, salaries, and insurance, making the labor contract system the core. According to the trial reform program, over 4,000 enterprise employees first signed labor contracts, and then signed on-post appointment contracts. There were different salaries for employees with appointment contracts and for those without. Other work was arranged for employees who were not appointed. The new labor structure and distribution really stimulated employee initiatives. More than 30 enterprises in Shanghai, including the Shanghai Mini-Bearing Plant, the Shanghai Specially Shaped Steel Pipe

Plant, the Jiafeng Cotton Textile Mill, and the Diesel Engine Plant, also required trial reforms. The municipal labor personnel department has chosen 10 enterprises to engage in testing the new personnel system. Meanwhile, they also pay close attention to making and testing reform programs in the social insurance system, such as unemployment protection.

Trial share-holding systems in enterprise groups and enterprises in the new Pudong development zone must be actively but prudently promoted. At the same time, there are many other new trial reforms: enterprises in Pudong and Pudong establishing enterprise groups, so that Pudong brings along Puxi; export-based enterprises in the machinery and electronics industry being given sufficient rights to determine their own foreign trade; and the textile industry combining manufacturing and trade, so as to expand industry exports.

The first task in invigorating large- and medium-sized enterprises is to inspire their initiatives, and especially the enthusiasm of their managers. Shanghai has put forward strict requirements for these managers. They must make progress in economic results by intensifying internal management, increasing product quality, and revitalizing business. Meanwhile, they must uphold and perfect the manager responsibility system, give managers full decision-making powers, and guarantee administrative smoothness.

Shanghai has made preliminary achievements in its all-out efforts to invigorate large- and medium-sized enterprises. In the first quarter of this year, the industrial output value of enterprises owned by the whole people in Shanghai increased by 3.9 percent over the same period in 1990, ending the decline of the past two years and serving as a major driving force in the growth of Shanghai's gross value of industrial output, which grew by 11.9 percent. In the meantime, revenues from product sales increased 9.3 percent, and taxes on product sales grew 9.5 percent. To be sure, Shanghai's enterprises owned by the whole people still have problems, such as overstocked products and a drop in realized profits. However, the margin is narrowing. Although it is impossible to solve the accumulated problems of the past few years overnight, it is important that a good momentum has taken shape. It is only a matter of time before the "national teams" restore their prestige.

Hebei Economic Development Plan Report

*SK2107050391 Shijiazhuang HEBEI RIBAO
in Chinese 6 May 91 pp 5-6*

[Reports made by Cao Jinzhang, chairman of the Hebei provincial planning and economic commission, on the implementation of the 1990 plan of the national economy and social development and on the 1991 draft plan at the fourth session of the seventh Hebei Provincial People's Congress on 20 April]

[Text] Fellow deputies:

I, entrusted by the provincial people's government, would like to deliver reports on the implementation of 1990 plan of the national economy and social development and on the 1991 draft plan of the national economy and social development for examination and approval at the present session.

1. The Implementation of the 1990 Plan

During the past year, the province enabled the national economy to develop in a favorable direction in the course of improving the economic environment and rectifying economic order by continuously implementing the principle of improving the environment, rectifying order, and deepening the reform drive. The province also did this by earnestly implementing the series of policies and measures adopted by the CPC Central Committee and the State Council with regard to stabilizing the economy. According to preliminary statistics, the annual total product of society was 173.42 billion yuan (calculated in term of prices in the year; the same is true for the following amounts), a 5.8 percent increase over 1989; the gross national product was 82.67 billion yuan, a 4.8 percent increase over 1989; and the national income was 70.46 billion yuan, a 4.2 percent increase over 1989. The total supply and demand tended toward a balance, and the rate of the gap between supply and demand decreased from 12 percent in 1989 to less than 5 percent in 1990. Thus, the superficially rooted contradiction which had restricted the economic development was relieved and the program of building the socialist spiritual civilization was further enhanced. The province made new achievements in the undertakings of science, education, culture, public health, and physical culture and sports. Judging from the general situation, the implementation of the 1990 plan of the national economy and social development was fine and the province basically fulfilled the tasks set in the plan from the third session of the seventh People's Congress.

A. The province reaped a gratifying bumper agricultural harvest and achieved stable development in the rural economy in the year. In 1990, the output of major agricultural products increased in an overall way and the situation in the rural economy as a whole was very fine, thanks to the favorable weather and to various localities across the province that had continuously enforced their special policy for agriculture. The annual total agricultural output value was 35.1 billion yuan, a 5.2 percent increase over 1989. Based on the bumper harvest reaped in the past two consecutive years, the province reaped another bumper grain harvest in the year, and the total grain output was 22.769 million tons, a 2.083 million ton increase over 1989, surpassing the annual plan by 1.769 million tons. The total cotton output was 571,000 tons, a 35,000-ton increase over 1989, accounting for 91.4 percent in the annual plan. The total oil-bearing seeds output was 749,000 tons, a 189,000-ton increase over 1989, and the annual plan was overfulfilled and the decline situation in the past two consecutive years was

improved. The province continuously maintained a trend of stable development in animal husbandry, aquatic production, and forestry; and fulfilled or overfulfilled the plans for the total output of meat and aquatic products and for the acreage of planted trees. The town-run enterprises achieved stable development and their total output value was 55.14 billion yuan, an 11.6 percent increase over 1989. The agricultural economy, particularly the sustained increase in agricultural production, has provided important material conditions for further developing the national economy.

B. Industrial production stably rose in the course of readjustment and gradually showed a normal increase. In the first several months in 1990, industrial production declined once, due to the market slump and fund shortage. In coping with the situation, the provincial party committee and the people's government further enhanced their organizational leadership over the industrial production; provided in a timely manner the guiding ideology and demands for successfully fighting the industrial general battle by proceeding from dealing with the problems in mental attitude and by successfully carrying out the coordinated operation of economic construction; successively adopted a series of measures for enhancing sales, invigorating the markets, and promoting production; and enabled the situation of industrial production to achieve a turn for the better. The annual total industrial output value was 111.6 billion yuan, a 6.9 percent increase over 1989, and the province realized the 6 percent increase target set in the plan. The products mix was somewhat readjusted, and of the output of major products of 82 categories covered by the appraisal plan, the overwhelming majority of them were in conformity with the demands. The undertakings of communications, transportation and post and telecommunications achieved stable development. The volume of railway freight transported showed a 2.5 percent increase over 1989, the loading and unloading volume of the Qinhuangdao harbor showed a 5.8 percent increase over 1989, and the business volume of post and telecommunications showed an 11.9 percent increase over 1989.

C. The structure of investment in fixed assets continued to be readjusted, and the fulfillment of the key construction projects was fairly good. During the first few months of last year, the progress of implementing our province's fixed assets investment plan was slow and, particularly, the scope of investment in technological transformation dropped by a fairly large margin. After the provincial industrial and communications production conference, we tried by all possible means to collect funds, went deeply to the construction sites to work on the spot, and promptly coordinated with departments concerned to solve construction problems in an effort to gradually accelerate the construction progress. We invested 11.14 billion yuan in the fixed assets of state-owned units during the year. If calculated in terms of comparable standards, the increase was 7.3 percent greater than that of last year. Of this, the investment in capital construction projects reached 6.24 billion yuan, an increase of 9 percent; the investment in equipment replacement and technical updating was 4.15 billion yuan, an increase of

6.3 percent. In the investment in fixed assets of state-owned units, the investment in agricultural, energy industrial, cultural, educational, and public health undertakings increased at varying degrees. The construction progress of key projects was fairly rapid. The capital construction of 14 large- and medium-sized projects and single-item projects were completed and commissioned or basically completed, including the first-phase construction of the Shangan Power Plant, the Tangshan Caustic Soda Plant, the No. 604 paper mill in Baoding, the No. 1 power generating unit of the Shalingzi Power Plant, the Qinhuangdao Ammonium Phosphate Plant, the Tangshan Locomotive Plant, the Shijiazhuang kine-scope glass tube plant, the first-phase construction of the Shijiazhuang coking plant, the No. 4 Shijiazhuang Printing and Dyeing Plant, the Baoding interior decoration cloth company, the Baoding Transformer Plant, the penicillin transformation project of Huabei Pharmaceutical Factory, the No. 1 generating unit of the Panjiakou water pumping power station, and the Hebei section of the Beijing-Tianjin-Tanggu expressway, the technological transformation projects whose investment exceeded the stipulated norms.

D. The financial revenue increased, and the banking situation was fairly stable. Based on statistics, in 1990, the province's completed local financial revenues reached 8.115 billion yuan, up 6.6 percent over the previous year; the financial expenditures reached 8.729 billion yuan, up 12.9 percent. The banking departments did much work to collect funds, to facilitate the flow and rational use of funds, to readjust the degree of retrenchment, and to support economic development. In the issuance of credit funds, we emphasized key aspects, key trades, key enterprises, and key items. The withdrawal of currency was greater than spending. During the year, we withdrew 710 million yuan from circulation.

E. The retail prices of commodities were brought under control, and the income of residents increased continuously. Thanks to the alleviation in the contradictions of the total supply and demand, last year, our province's retail commodity prices were always stabilized. Based on statistics, the general retail price level of commodities during the year dropped by 0.1 percent from last year. The stable commodity prices, the readjustment in the wages of state organs, enterprises, and units, the rise in the prices of some agricultural and sideline products, and the bumper agricultural harvest made the actual living standards of the urban and rural residents rise continuously. The average per-capita income for living expenses of the residents in cities and towns reached 1397.4 yuan; and the average per-capita net income of peasants, was 621.7 yuan. If the price rise factor is deducted, the two both showed an increase of varying degrees over the previous year.

F. The foreign export trade plan was fulfilled, and the work of using foreign capital showed new progress. By adopting such measures as deeply carrying out activities on managing foreign trade enterprises, actively readjusting the export structure, and expanding the sources

of goods, last year, the province created \$1.737 billion in the total value of the foreign export trade, up 6.1 percent from the previous year. Excluding the crude oil and coal to be delivered to the state, the exports of some local trade units and the "joint, cooperative, and foreign-funded" enterprises reached \$1.256 billion, showing a slight increase over last year. In the utilization of foreign capital, during the year, we used foreign capital to build 128 projects. The actual utilization of foreign capital was \$99.92 million, of which \$49.54 million was direct investment from foreign businessmen, up 3.8 percent over the previous year.

G. New achievements were made in science and education. Scientific and technological work was further strengthened, 94 percent of the 1,099 scientific research tasks listed in the provincial plan were fulfilled on schedule, and 255 tasks were appraised and approved, of which 20 scientific research achievements reached advanced international standards and 176 reached the country's advanced levels. The scientific and technological achievements disseminated on a priority basis were extensively applied. In education, we achieved new progress in adhering to the socialist orientation for running schools, deepening the educational reform, and training socialist constructors. Local regular schools of higher learning admitted 18,779 students; secondary specialized schools admitted 30,790 students; and adult higher educational courses admitted 14,223 students, all by and large fulfilling the plans. Elementary education was intensified, with 103 counties (cities) throughout the province reaching the standards for providing primary schools necessary facilities in "eight aspects." We attached greater importance to the special education of mentally retarded and handicapped children. Cultural undertakings continued to develop, and the quality of intellectual products was improved. The province produced three and released 108 films and produced 30 television dramas in 189 episodes and nine radio dramas in 20 episodes. Some of these works were praised and won state-level awards. New progress was also made in the archives, historical relics, press, and publication undertakings, and great achievements were won in eliminating pornography. Medical conditions continued to improve. By the end of the year, hospital beds had totaled 146,000, up 2,000 from the previous year, and medical personnel numbered 181,000, up 6,000. Mass sports activities became ever more popular, and 17 counties of the province entered the rank of counties with advanced sports in the country. Provincial-level sports were further bolstered. The athletes of our province broke three Asian and Asian Games records at the 11th Asian Games and won 10 gold, eight silver, and four bronze medals. Tourism picked up fairly rapidly. In the whole year, the province received 47,000 tourists from 58 countries and regions and earned 30.53 million yuan in renminbi. Family planning was further strengthened, and the natural population growth dropped from 14.8 per thousand in the previous year to 13.64 per thousand.

The aforementioned situation showed that the economic improvement and rectification yielded marked results in our province, the tasks to reduce the inflated social demands and to control the inordinately large price rises were basically fulfilled, and economic restructuring already started in some aspects, thus providing a fairly good environment and conditions for the further development of economic and social undertakings. However, many contradictions and difficulties still existed in implementing the plan. In particular, deep-seated contradictions remained conspicuous and, in economic norms, not only were some of them lower than the national average but also the gap was widening. Our situation remained very grim and pressing.

A. Despite the bumper harvest, the foundation for agriculture remained very weak. True, last year's bumper agricultural harvest should be attributed to our hard efforts in doing work. However, favorable weather conditions also constituted an important factor and, therefore, the actual agricultural production level was not reflected. The aging of farmland water conservancy facilities, the serious shortage of water resources, and other problems of our province were still very conspicuous. Some common agricultural science and technology had yet to be successfully disseminated and applied, our comprehensive agricultural production capacity remained low, and only about one-third of the province's nearly 100 million mu of farmland were able to guarantee stable yields despite drought and excessive rain. We may say that we still live at the mercy of nature to some extent. Such a situation urgently needs to be changed.

B. The slow rise in market sales affected the normal circulation of the economy. The province failed to change the situation of the total volume of commodities retail sales continuously dropping in the first 11 months of last year. The year-end volume of commodities retail sales increased only by 1.3 percent over the previous year. The slow rise in market sales was partly due to the failure to retrench finance and credits or to make appropriate and timely readjustment. It was also partly caused by the fact that the product mix was not suitable for the demand structure. The blocked marketing of products affected the normal circulation of the economy.

C. The structural readjustment progressed slowly. The province made achievements in readjusting the product mix in the past year. But, viewing the general situation, we know that the readjustment progressed slowly. We failed to increase the production of some products covered in the state policies on giving priority to supporting the production of some key products. We failed to effectively control the production of some products whose production should have been restricted or stopped. Some problems existed in the people's understanding, and there were some work problems, some structural problems, and some problems due to distribution of interests. All this directly affected the smooth progress of the structural readjustment.

D. The poor economic result situation has not improved yet. The financial situation was serious. Because of a sluggish market, slow industrial growth rate, unreasonable product mix, and poor management of some enterprises, last year, the province constantly had prominent problems and poor economic results, and had a long way to go when compared with the national average level. The profits and taxes realized by the local budgetary industrial enterprises across the country were reduced by 25.8 percent on average, and those of the province were reduced by 40.6 percent on average. The cost of comparable products of the whole country rose by 5.7 percent, that of the province, 7.6 percent; the marketing profit and tax rate of the whole country was 11.16 percent, that of the province, 9.2 percent; the capital profit and tax rate of the whole country was 13.76 percent, and that of the province, 10.15 percent; and the turnover of fixed-quota working funds of the whole country was 127 days, and that of the province, 139 days. The economic results made by the circulation and construction fronts were not ideal enough. The poor economic results intensified the contradictions occurring because of the imbalance between revenues and expenditures. The financial deficits reached 238 million yuan.

Objectively speaking, some contradictions and problems in the economic spheres are temporary phenomena that hard to avoid in the course of improving the economic environment and rectifying the economic order, and some are deep-layered contradictions that have accumulated for many years. We failed to implement the measures for improving the economic environment and rectifying the economic order. The provincial government took these contradictions and problems into full consideration in making the 1991 plan. So far, we are going to adopt measures for solving them in a step-by-step manner.

2. The Guiding Ideology and Major Targets for Arranging the 1991 Plan

The year 1991 is the first year to implement the 10-year program and the Eighth Five-Year Plan. Along with the implementation of the policies on improving the economic environment, rectifying the economic order, and deepening reforms; the step-by-step arrangement of a series of measures for readjusting the microeconomy; and the further alleviation of some factors restricting the economic development, the province's overall economic situation in 1991 will be better than that of last year. But, grim factors still exist in the economic sphere. Some deep-rooted contradictions that have accumulated for many years, such as uncoordinated economic structure, defected systems, and low economic results, cannot be solved fundamentally. Some new and old contradictions still affect the economic development in varying degrees. First, under the current circumstances of the province's agricultural foundation being weak and its overall agricultural production capacity being fairly low, we need to

exert great efforts to continuously reap bumper agricultural harvests. Therefore, we must never ignore agricultural production, and we must continue to put agricultural development in the first place in arranging the national economic development plan. Second, since the first quarter of this year, an upturn in market sales has emerged in the province, but the task to open up the market remains very heavy. It is still necessary to regard opening up the market, especially the rural market, and invigorating the circulation of goods as our economic work focus. Third, industrial production began to show a normal growth, but many difficulties still exist in the structural adjustment and the improvement of economic efficiency. This requires more efforts in management, adjustment, and technological progress, in addition to the efforts to achieve an appropriate economic growth rate, especially to invigorate large- and medium-sized state enterprises. This also requires that we carry out the provincewide activities for the "quality, variety, and efficiency year" in a down-to-earth manner until success is won. Fourth, in view of the rather complicated international environment and many difficulties in foreign exports, we should adopt every means to increase exports, open to the outside world more bravely, adjust well the relations among various fields in terms of interests in a timely manner, and win a success in the overall war for foreign economic relations and trade if we are to achieve steady growth in foreign economic relations and trade.

Based on the aforementioned analysis of the situation and in line with the guidelines of the seventh plenary session of the 13th party Central Committee and the fourth session of the seventh National People's Congress and the overall consideration of our province's 10-year program and Eighth Five-Year Plan, the guiding thoughts and basic tasks for the 1991 economic and social development plan are arranged so that economic construction is the central task, scientific and technological progress are the lead, and structural adjustment, quality improvement, and efficiency increase are the priority. To fulfill this, we should further deepen reform, strive to open wider to the outside world, achieve success in the economic improvement and rectification, continue to reap bumper agricultural harvests, invigorate large- and medium-sized enterprises, ensure a balance between the revenue and the expenditure of the year, and strive for marked progress in major economic and efficiency indexes.

Major targets arranged in the plan are as follows:

Based on improved economic efficiency, we should maintain appropriate growth in the economy. The total product of society is planned at 183 billion yuan, up 5.5 percent from the previous year; GNP 86.4 billion yuan, up 4.5 percent; and national income 73.3 billion yuan, up 4 percent.

The output value of agricultural production is planned at 36.33 billion yuan, up 3.5 percent from the previous year. The output of grain is planned at 22 to 22.75

million tons, that of cotton 650,000 tons, that of oil-bearing crops 700,000 to 750,000 tons, and that of meat 1.25 to 1.31 million tons. To ensure that the grain, cotton, and oil-bearing crop production targets are attained, the areas sown with grain crops should be stabilized at more than 100 million mu, roughly the same as in the previous year; the areas sown with cotton should be stabilized at 13.5 million mu, and efforts should be made to expand the areas to 14 million mu; and the areas sown with oil-bearing crops should be stabilized at 9.5 million mu, the same as in the previous year.

The output value of industrial production is planned at 118.3 billion yuan, up 6 percent from the previous year. The output of the overwhelming majority of the 95 major industrial products listed in the plan should show an increase. Of it, the output of electricity should be 39.95 billion kilowatt hours, up 9.6 percent; that of pig iron 5.6 million tons, up 12.1 percent; that of rolled steel 3.03 million tons, up 7 percent; that of chemical fertilizer 1.365 million tons, up 3.5 percent; that of chemical medicines 5,202 tons, up 6.6 percent; and that of crude salt 2.4 million tons, up 35.1 percent. Due to the restrictions of resources, the output of raw coal, crude oil, cotton yarn, and cotton cloth will be the same as in the previous year or show some reduction.

The investment in the fixed assets of local state units is initially planned at 6.47 billion yuan, up 10.9 percent from the previous year. Of the total, the investment in capital construction will be 2.74 billion yuan, up 10.5 percent; that in technical transformation 3.38 billion yuan, up 9.8 percent; and that in other aspects 350 million yuan, up 25.4 percent. According to the plan, 32 large- and medium-sized capital construction projects and technical transformation projects whose investment exceeds the stipulated norms will be developed, of which nine will be completed and commissioned in the year.

We should strive to improve the financial situation. It is expected that the province's financial revenue will reach 8.999 billion yuan; if calculated in terms of comparable standards, the increase will be 6.3 percent over the previous year.

Under the plan, the total retail sales of commodities should increase by 8 percent over the previous year.

Excluding the crude oil and coal to be delivered to the central authorities, the total exports of the local ordinary trade units and the "joint, cooperative, and foreign-funded" enterprises should be valued at \$1.3 billion, an increase of 3.2 percent over the previous year.

The scope of increase in the total price index of retail sales of commodities should be controlled within 6 percent.

We plan to arrange for tackling 30 key scientific and technological projects, and for popularizing 100 key scientific and technological achievements. Institutions of higher learning should enroll 18,900 students,

showing a slight increase over the previous year; secondary specialized schools should enroll 31,500 students, an increase of 700 students over the previous year.

The annual natural population growth rate should be controlled within 14.3 per thousand.

3. Several Tasks Which We Must Particularly Grasp Well To Realize the Plan

A. We should actively boost agriculture and continue to reap a bumper agricultural harvest. Realizing this year's agricultural production plan target will require arduous efforts. The major measures to be adopted under plan are: 1) We should continue to stabilize and perfect the rural basic economic policies. The emphasis should be placed on stabilizing and perfecting the responsibility system focusing on the family-based output-related contract responsibility system. We should actively develop the rural socialized service system, perfect and improve the dual management system of combining centralized management with decentralized management, and gradually expand the collective economic strength. 2) We should try by all possible means to increase agricultural input and to step up our efforts to carry out the agricultural comprehensive development on Haihe Plain and the ecological projects in the upland and mountainous areas. Based on initial arrangements, this year, the financial departments at all levels throughout the province will invest 620 million yuan in agricultural production and construction, an increase of 60 million yuan over last year's plan; banks and credit cooperatives at all levels will grant 2.78 billion yuan of agricultural loans, an increase of 300 million yuan over the previous year; the investment in the agricultural comprehensive development projects in the Haihe basin and plain will reach 620 million yuan; the investment in the ecological projects in the upland and mountainous areas will reach 20 million yuan; and the loans from the World Bank and the domestic supporting funds will amount to 460 million yuan. We should continue to induce and encourage peasants to increase input, and we should do a better job in accumulating labor forces. The whole province plans to expand 1.24 million mu of irrigated areas, restore and improve 3.57 million mu of irrigated areas and 3 million mu of waterlogged areas, transform 1.7 million mu of medium- and low-yield fields, and develop 2 million mu of waste areas of various descriptions, of which 240,000 mu should be cultivated land. Continued efforts should be made to control the misappropriation of cultivated land for building all kinds of construction projects. This year, we plan to control the misappropriation of cultivated land within 90,000 mu. 3) We should accelerate the popularization and application of agricultural scientific and technological findings. Under the plan, we should particularly popularize 30 applicable agricultural sciences and technologies of 10 categories; popularize the planting of 1 million mu of corn, and 300,000 mu of peanuts inside plastic sheeting in the eastern, northern, and northwestern parts of Hebei province; develop 2.8 million mu of cotton and wheat in the central and southern parts of the province; popularize 1 million mu

of dryland farming in Helonggang and the northwestern part of the province; and popularize the technology of mechanized composting of crop straws on 5 million mu of fields in the high yield areas. 4) We should further strengthen industrial support for agriculture. In order to guarantee the chemical fertilizer needs of the agricultural sector, in addition to doing a good job in organizing the current production, we should step up efforts to transform a batch of medium-sized and small chemical fertilizer plants and put them into production as soon as possible. At the same time, we should implement the low-price chemical fertilizers policy to guarantee the sources of chemical fertilizers. The Cangzhou, Qianan, Shijiazhuang, and Handan Chemical fertilizers plants, which are shouldering the heavy responsibility of supplying low-price chemical fertilizers to the whole province, should fulfill the chemical fertilizers delivery tasks strictly in accordance within the plans and the time set for the supply of goods. In agricultural chemicals, we should strive to organize efforts to increase production to meet the needs of cotton and wheat production, increase the number of new product varieties, and appropriately import some agricultural chemicals. In manufacturing farm machines, the province, by enforcing the production system of assigning tasks to certain plants and by conducting technical renovations among key products, will gradually achieve development by using machines for multiple functions and by enabling farm machines to become lighter and more flexible and to better meet the needs of agricultural production. 5) We should further accelerate the pace in helping the poor areas end of their backward situation and become wealthy, continuously do a good job in conducting disaster relief work by distributing funds to reward labor, emphatically and successfully make arrangements for the construction of water sources for both people and animals as well as the construction of roads in highland and mountainous areas, and vigorously improve the conditions of production and livelihood in these areas. 6) In line with the "principle" of actively giving support, making rational arrangements, correctly conducting guidance, and enhancing management, we should uphold the "four-wheel-drive" system, regard towns/townships or collectives as a center, continue to maintain the stability of policies, realistically enhance the management over various industries and trades, and further promote the healthy and stable development of town-run enterprises. The arrangement for the plan of total output value produced by the town-run enterprises this year will be 15 percent larger than that of 1990.

B. We should earnestly do a good job in readjusting the structure to ensure a sustained and stable increase in industrial production. The industrial production this year will be carried out in line with the tasks of readjusting the structure and upgrading the economic results. First, a good job should be done in readjusting in a timely manner the products mix to suit the current needs. We should emphasize readjusting the products mix of light and textile industries which can earn high

profits and taxes and readjusting technically intensive machine-building and electronic industries. We should formulate plans for readjustment, present products catalogues, conduct classified guidance, and make breakthrough readjustments among key products so as to bring along the readjustment of products mix in all industries and trades and in the province as a whole. In conducting the production of textile industry, a good job should be done in emphatically developing the products with precision or intensive work, in which 15 commodities are regarded as leading, such as pure cotton high class products, lining cloth products, textile goods with a particularly large width, and high class knitwear products. A good job should be done in vigorously upgrading the quality and grade of export products and in increasing the proportion of products with the precision or intensive work and of high class products. In conducting the production of light industry, while consolidating and improving the traditional products, strenuous efforts should be made to develop new products suitable to the needs at multiple levels; to strive to make obvious progress in increasing the variety of new commodities, designs, colors, and patterns; and to enable more of the province's light industrial products to occupy a share in the markets. In conducting the electronic industry and machinery production, a good job should be done in emphatically developing the production of machinery and electronic equipment needed by the basic industries of energy resources, raw materials, communications, and telecommunications and in the production suitable to farm machines; in actively developing the products which can save energy and materials; and in vigorously increasing the output of exports, machinery, and electronic products and of the products which can take the place of imported ones. Second, efforts should be made to continuously enhance the basic industries of energy resources and raw materials. In conducting raw coal production, we should mainly do a good job in having a number of new collieries of Jiulongkou, Qianjiaying, Xuandong, Lincheng, and Gequan be put into production or reach their output targets; in expanding or improving the existing collieries of Fangezhuang, Lujia-tuo, Xuezhuang, Xiaotun, and Guoerzhuang; and in vigorously upgrading the level of mechanization of mining operations and of per unit yield. The locally owned collieries, on the premise of rationally utilizing natural resources and carrying out production safety, should increase their output as much as possible and strive to achieve a stable increase in their production. The power industry should vigorously build the power plants which can be put into production this year and strive to have them play their role. The power industry should have the existing power plants strive to maintain production safety, stably produce electricity, and fulfill their quota as well as do a good job in having the newly equipped generator sets be fed into the power grid. Raw material industries should adequately curtail the production of general steel products plants and of small glass and cement factories which have suffered losses and overstocking in line with the principle of upgrading the quality. These industries should increase the variety of

products in short supply and the output of medium plate, light rails, aluminum products, nonferrous metal, basic chemical industrial materials, and new types of building materials. Third, a good job should be done in readjusting the organizational structure of enterprises. We should emphasize establishing enterprise groups and associations and promoting the optimization and organization of the major means of production. The province plans to organize 10-15 enterprise groups and 500 enterprises associations. Fourth, efforts should be made to integrate the readjustment of products mix with technical renovations and to vigorously encourage enterprises to make technical progress. We plans to arrange 300 enterprises of the textile industry, metallurgical industry, chemical industry, building materials industries, machinery and electronics industry, and light industry to conduct technical renovations this year. All enterprises, particularly large- and medium-sized enterprises, should set up, as soon as possible, technological development organizations; strengthen their cooperation with universities, colleges, and scientific research units; organize scientific research production associations; and positively apply new technologies, equipment, and materials to upgrade the quality and standing of products and to strengthen enterprises' competitive power. Fifth, we should further strengthen the management of production. This year, we should continue to strengthen the management of 11 trades, such as textiles, coal, power, chemicals, building materials, and medical industries; directly manage 22 key enterprises with great influence over the province's industrial production; timely and accurately grasp enterprise production and management trends and information, help enterprises solve their production problems, and ensure the smooth progress of industrial production.

C. We should solidly launch the campaign of fixing 1991 as the year of quality, variety, and efficiency; and strive to upgrade the economic quality and the production technological level. To vigorously, solidly, and deeply launch the campaign, first, we should ask all localities, departments, and enterprises to find out where they lag behind by making comparisons and analyzing their major economic targets. We should ask them to tap potential and upgrade the awareness of and the sense of urgency for improving quality, variety, and efficiency. Second, we should exert efforts to intensify enterprise management in order to upgrade the quality of products and to reduce the consumption of materials. 1) We should vigorously strengthen the management of basic work; continuously establish and perfect the rules and systems for managing product quality, fixed quotas, equipment, safety, production costs, and financial affairs; and also strictly assess the enforcement of the rules and systems. 2) We should attend to the upgrading of enterprises and promote a large number of enterprises to greatly improve their product quality, consumption, safety, and efficiency targets. 3) We should positively launch the campaign of creating quality products. All enterprises should be asked to formulate plans for upgrading their product quality. Meanwhile, enterprises

are allowed to sell, at higher prices, the products that won quality prizes issued by the province or higher levels. 4) We should grasp the implementation of encouraging policy measures, and give handsome rewards to those who make outstanding contributions to upgrading product quality. We should give priorities to the state and provincial-level advanced enterprises and the enterprises that have won quality management prizes, quality product prizes, and new quality product prizes issued by the province or higher levels in the spheres of technological transformation, technological imports, and supplying energy resources, funds, and raw materials. 5) We should organize forces to generally examine product quality. The enterprises with unqualified products should be consolidated and transformed within a fixed time. Bonuses must not be given to plant directors and responsible personnel where enterprises are being consolidated and transformed. Bonuses must not be given to plant-level leading body members of the enterprises where the amount of products in stock is 100 percent more than the fixed reserve quotas due to poor management and low product quality. The enterprises where the amount of products in stock is 200 percent more than the fixed reserve quotas must be forced to restrict their production or to manufacture other products within a definite time. 6) We should pay prominent attention to saving the raw materials in short supply, such as coal, power, oil, water, gas, steel products, timber, cotton, and grain; we should reasonably fix advanced consumption quotas or set consumption ceilings; we should assign planned targets for saving raw materials to prefectures and cities; and we should assess the enforcement of the targets. This year, the budgetary industrial enterprises should ensure that 85 to 87 percent of their products are steadily upgraded in quality, that the rate of output value of quality products should be kept above 35 percent, that 15 state quality products, 100 ministry quality products, and 600 provincial quality products are produced, and that the overall energy consumption for every 10,000 yuan worth of output value should be reduced by 8 percent from last year. Third, we should vigorously develop new products and promote the updating and upgrading of products. Beginning this year, the province formally started to formulate a plan for producing new industrial products. Thus, we should conscientiously implement and use the policies on reducing and remitting the taxes of some new products. The new products covered in the state plan for trial production will enjoy a reduction or exemption of product taxes and value-added taxes for one to three years. Enterprises must implement the policy of setting aside 1 percent of their income from sales as the funds for developing new products. This year, the province plans to develop 1,000 new products at and above the prefectural and city level, of which 400 should reach international or domestic advanced standards. Fourth, we should fully tap potential and make great efforts to help enterprises put an end to deficits and increase profits. We should continue to support on a priority basis the enterprises which turn out large amounts of profits and taxes in the supplies of energy resources, funds, raw materials, and means of

transportation. Meanwhile, we should pay attention to cultivating large profits and tax payers. We should fix the deficit quotas of loss-making enterprises and apply the responsibility system to their efforts to put an end to deficits within a fixed time. This year, the amount of the deficits of local budgetary industrial enterprises is planned to be decreased by 50 percent from that of the previous year. Fifth, we should improve the methods for evaluating economic work. Beginning this year, when evaluating the performance of prefectures, cities, and departments and the work of enterprises, we should judge not only by their growth rates but, more importantly, by the quality, variety, and efficiency of their products. We should publish the results of the evaluation in provincial newspapers at the end of the year. The provincial government will commend and award the top three prefectures, cities, and trades which made outstanding achievements in the activities for the "quality, variety, and efficiency year."

Through the in-depth activities for the "quality, variety, and efficiency year," we should strive for a marked improvement in the major economic efficiency indexes. This year, local budgetary industrial enterprises throughout the province should increase the rate of profits and taxes created from their output value, sales, and funds by 2 to 3 percentage points from the previous year and shorten the period for the turnover of certain amounts of circulating funds by 10 to 20 days. The per-capita productivity of state industrial enterprises should rise by 3 percent, the up-to-standard rate of construction projects examined for the first time should reach 75 percent, and the cost of circulation should be reduced by 3 percent.

D. We should properly arrange the scope of fixed asset investment and further increase the returns on investment. In line with the principle of controlling the total supply and total demand, conducting structural adjustment, giving prominence to priorities, and increasing efficiency and the actual conditions of our province, the province's 1991 local investment in fixed assets is initially arranged at 13.97 billion yuan, up 10.3 percent from the actual amount of the previous year. Of the total, 6.47 billion yuan will be invested in the fixed assets of state units, up 10.9 percent. The priority of the investment will be given to the projects to be completed and commissioned this year, the projects to be concluded, and the projects to be continued. Meanwhile, to increase our capacity for sustained economic development, some new projects have been arranged in line with the state industrial policy. In the flow of investment, we should continue to tilt favorably to basic industries and infrastructural facilities and particularly strengthen agriculture, the energy industry, transportation, undersupplied raw materials, science, education, and technical transformation. Policy restrictions on the construction of commercial houses, warehouse facilities, and houses for staff members and workers should be properly relaxed under certain conditions.

This year, the province plans to build 32 large- and medium-sized capital construction projects and technical transformation projects whose investment exceeds the stipulated norms, of which 25 are capital construction projects and seven are technical transformation projects. It requires that nine of the projects be completed and commissioned this year. In addition, a large number of key small projects will be completed and commissioned this year. First, we should adopt every means to raise funds in order to effectively adjust the investment pattern and guarantee the smooth progress of key projects. Monetary departments may adopt flexible methods in the issuance of loans to support the technical transformation of enterprises. They may also adopt such methods as leasing, raising funds, and issuing bonds to collect funds to support key projects. Prefectural, city, and county financial departments should allocate as many funds as possible for local construction. They may also raise some funds for use as interest deducted loans to enterprises. Enterprises should set aside full amounts of depreciation funds, overhaul funds, and new product development funds in line with regulations. The capital construction funds of the provincial construction investment company as decided by the provincial government should be arranged as soon as possible and should be managed and used successfully and flexibly.

Second, we should establish and perfect the system of assuming responsibility for the management of investment in fixed assets and evaluate the projects before making policy decisions to carry them out. All projects that are examined and approved by the provincial authorities must be evaluated by the provincial projects consulting company. We should conscientiously conduct feasibility studies of projects and establish the system of responsibility for making policy decisions. Regarding the construction of key projects each with a total investment of over 10 million yuan, we should strictly implement the public bidding system and the investment contract system to guarantee the quality of projects, shorten the construction period, and save construction funds. Third, we should concentrate efforts on grasping the projects under construction, implement the leadership responsibility system in particular, establish and perfect the system of holding meetings on the management of projects at a regular intervals, always go deeply to the construction sites to coordinate with relevant units to solve construction problems in a timely manner, and strive to complete these projects, put them into production, and make them yield beneficial results as soon as possible. Fourth, we should exert efforts to grasp the first-stage work of these projects, realistically strengthen efforts to make project lists so as to guarantee that projects will be initiated and commissioned every year in order to intensify the momentum for the province's economic development.

E. We should strive to increase revenues, and further make good and flexible use of the credit scope and funds. This year, our province's financial departments will still

have to face many difficulties. To guarantee the realization of a balance between financial revenue and expenditure this year, we must adopt overall measures. First, we should focus on promoting production and raising efficiency, and we should actively cultivate and open up financial resources. The emphasis should be placed on grasping the implementation of the existing policies and measures; encouraging enterprises to improve operation and management by implementing special financial and taxation policies on them; and making sufficient, good, and flexible use of some preferential policies in particular to promote enterprise technological transformation, improve product quality, and readjust product mix. All enterprises should guarantee the fulfillment of the planned major economic efficiency targets which they set, and should fulfill their contracted state delivery tasks. Meanwhile, we should strengthen county-level financial resources and gradually end the situation in which the scope of financial subsidies of our province's county-level financial departments is too broad. Second, we should further strengthen tax collection and management and the work of clearing up enterprises' default on profits and taxes; and continue to grasp the general inspection of tax revenue, financial affairs, and commodity prices and the collection of all sorts of miscellaneous taxes. Third, we should strictly manage the budgets, continue to strictly control expenditures, and resolutely reduce whatever expenditures can be reduced, and guarantee the realization of the annual targets set for financial revenue and expenditures.

In credit, this year we should continue to implement the principle of "controlling the total supply and demands, readjusting the structures, appropriately regulating the economy, and increasing the efficiency." According to the initial arrangements, the savings deposits of all sorts should increase by 9 billion yuan, and loans of various descriptions should increase by 11.7 billion yuan. In order to support economic development better, first of all, we should continue to actively organize bank savings, strive to expand the sources of funds, and basically stabilize and increase the savings deposits of the urban and rural residents and those of enterprises. Second, we should conscientiously grasp the readjustment of credit structure, and give priority to supporting the development of agriculture and basic industries. Continued efforts should be made to manage enterprise loans by establishing a number of categories, treat them according to their merit, support the potential projects, and use the new loans mainly for the products that are favorable for opening up the market, invigorating the circulation of goods, increasing exports, and promoting production. Third, we should adopt all sorts of measures to collect construction funds. In addition to actively fighting for the credit scope from the state, we may flexibly use the amount of loans for fixed assets that have been withdrawn in line with the practical situation, and exert our utmost to guarantee the funds for key construction projects. It is necessary to do a good job in issuing enterprise bonds and banking bonds, in strengthening the capacity to pool idle funds from society, and in

firmly clearing up the expired loans. In order to withdraw more loans and arrange for more projects, we may reduce fines or exempt some enterprises from paying fines if they pay their overdue loans in the first half of this year. Fourth, we should do a better job in clearing up "debt chains," promote the normal circulation of commodities, accelerate the circulation of funds, make full use of the seasonal difference in the use of funds by different localities, adopt various forms to carry out short-term interlending loans among enterprises of the same trade, and do a better job in shifting the surplus funds in one place to other localities where needed.

F. We should continuously expand the scale of opening to the outside world, develop foreign economic relations and trade, and conscientiously grasp the work of using foreign capital and bringing in technologies. The key to realizing the export targets of the ordinary trades and the enterprises involving foreign capital is to help foreign trade enterprises perfect the system of management based on contracted responsibility and carry out various reform measures. We should focus our efforts on grasping the following work tasks. 1) We should further improve the planned management of foreign trade enterprises. To expand foreign trade enterprises' independent management and the proportion of foreign trade enterprises, from this year, the provincial planning and economic committee will assume main responsibility for the overall balance and coordination work; and focus its efforts on strengthening the planned management of the total value of commodities purchased for foreign export trade, the total export value, and 19 major commodities. The work in other spheres will be managed by the provincial committee for foreign economic relations and trade and the foreign trade import-and-export company. 2) It is necessary to perfect the system of reward and punishment through assessment. Foreign trade enterprises should assume sole responsibility for their profits or deficits, and enjoy no financial subsidies. After fulfilling the plan for delivery of goods through ports, the production enterprises in the province are allowed to obtain eight per thousand of bonuses from delivery of machinery and electronics products and six per thousand of bonuses from other industrial goods. Foreign trade enterprises should also link their staff and workers' bonuses with the volume of export through ports so as to further arouse the staff and workers' enthusiasm for creating foreign exchange through exports. 3) We should encourage enterprises to develop new export products. The enterprises engaged in the development of new export products should be given material reward, and be given monopoly management rights if conditions permit. 4) We should exert great efforts to improve management, try every possible means to tap the inherent potential of foreign trade enterprises, strive to reduce production cost, and rise the prices of export products. This year, we should strive to increase the prices of export commodities by 5 percent, simultaneously reduce 10 percent of the commodities kept in stock, and reduce 20 percent of the credits that should be recalled from foreign countries. 5) We should readjust

and optimize the export commodity structure; and support, in a well-planned manner, the export of intensive-processed industrial products and high value-added finished industrial products, such as machinery and electronics products, light industrial products, handicraft articles, chemical industrial goods, clothes, and printed and dyed products. We should continue to set up and develop a group of bases, special plants, and special workshops engaged in production of export products in order to offer stable and reliable goods sources for expanding the scale of exports.

We should further positively, boldly, and effectively carry out the work of using foreign capital and bringing in technologies. We should preliminarily arrange 108 projects for using \$117.80 million foreign capital, an increase of 17.9 percent over the previous year. Of this, 34 are projects on using foreign loans, involving \$65.56 million foreign capital; and 74 are projects on investment of foreign traders, involving \$52.24 million foreign capital. The province plans to set up 50 enterprises involving foreign capital, and develop 20 projects of processing and assembling with materials and specification provided by foreign firms. The contracts on cooperation of labor forces and the contracts on undertaking overseas projects should involve \$70 million foreign capital. In line with the principle of high starting points and high efficiency, we should conscientiously grasp the work of bringing in advanced technologies, focus on bringing in key equipment and key parts, and give priorities to the enterprises with tasks for creating foreign exchange through exports and the enterprises undertaking the projects for making import substitutes, developing import-based export products, and creating foreign exchange through exports. Meanwhile, we should continue to strengthen the construction of open areas and infrastructural facilities, further improve the investment environment, develop the Qinhuangdao economic development zone, and promote the development of opening the province to the outside world.

G. We should further enliven urban and rural markets, basically stabilize goods prices, and realistically make good arrangements for the people's livelihood. This year, we should continue to attend to the implementation of various marketing policy measures, pioneer markets, enliven circulation spheres, perfect the purchasing and marketing responsibility system with the main content of "five fixed quotas and one contract," and further arouse the enthusiasm of purchasers and sellers. We should persistently focus our efforts on pioneering rural markets. Commercial, supply and marketing, and material supply enterprises should conscientiously focus their efforts on marketing local products and sending industrial products to the rural areas. Meanwhile, we should conduct study of and establish an important commodity storage system and a market regulating fund system. We may consider the collection of a fixed amount of funds from the sales of important means of agricultural production to be used as regulating funds in order to resolve the contradiction in the marketing in the production

season in normal years. We should actively support and encourage collective and individual industrial and commercial households to do business according to law and to make use of their advantages, such as scattered location in many areas and flexible business methods, to promote the circulation of commodities. To keep prices basically stable and continue to improve the people's living standards on the basis of developed production, we plan to adopt the following measures. First, we should continue the system of responsibility for price control targets, specify the price control targets of the province and assign them to prefectures, cities and pertinent departments for strict implementation. Second, we should organize and supply well the daily necessities for the people, pay attention to the shopping basket project and do a good job in the production and supplies of nonstaple foods to urban areas. Third, we should use the price regulating funds well to keep the prices of daily necessities basically stable. Fourth, we should strengthen supervision and inspection, intensify price control, rectify prices according to the established priorities and conscientiously check unauthorized price increases and collection of fares. Fifth, we should strive to broaden urban and rural employment and increase labor work posts. Through the aforementioned measures, we should make sure that the consumption level of the people of the province continues to rise over last year's.

H. We should succeed in the allocation and supply of major materials to ensure the smooth progress of production and construction. Judging from the state's allocation of major materials to our province, the supplies of coal and timber remain to be a rather large contradiction in 1991. The supplies of rolled steel, nonferrous metals and chemical industrial products will be by and large at the same level as in the previous year and the supply of cement will show a slight increase. To achieve a balance in the supply and demand of major materials and meet the needs in production and construction, we plan to adopt the following measures. First, we should adopt every means to organize forces to increase production. By adjusting the adaptability of products and accelerating technical transformation, we should expand the production of coal and rolled steel, which the province is able to produce, and, especially, the production of under-supplied products, to alleviate the contradiction between supply and demand. Second, we should make great efforts to organize extra-budgetary resources and ship in as much coal as possible from Shanxi to make up for our shortages of coal. Material departments should continue efforts to invigorate the circulation of materials, organize and manage well the various types of material markets and strive to increase the sources of supplies to support the development of production and construction. Third, we should import some timber, rubber and rolled steel, which we are lacking and unable to produce, to meet the urgent needs in production and construction. Fourth, we should make great efforts to practice economy. All enterprises and units should assign material conservation quotas to work teams and individuals,

evaluate their performance in material conservation, award those which do a good job and punish those which do a poor job and strive to make our limited materials turn out greater economic efficiency.

I. We should further develop science, education, culture, public health, sports and other social undertakings. We should continue the strategy of "developing Hebei through the application of science and technology," with the focus on accelerating "agricultural development through the application of science and technology and the promotion of education" and accelerating the technical transformation of industrial enterprises. First, we should do a good job in the dissemination and application of scientific and technological achievements. This year, we plan to disseminate 100 scientific and technological achievements—60 in agriculture and 40 in industry. In agriculture, the priorities are grain and cotton high yield technology, technology in support of good-quality cultivation, plant protection technology, optimal fertilizer application technology, water-efficient irrigation technology and comprehensive saline-alkali soil improvement technology. In industry, the priorities are the micro-electronic technology and new energy conservation technology and methods designed to adjust product mix, improve product quality and reduce material consumption. Second, a good job should be done in overcoming the difficulties in science and technology. The province has initially made arrangements for the 30 key projects of overcoming the difficulties in science and technology, which include 280 items, such as overcoming the difficulties cropping up in the technologies of equipment of crafts of machine-building, electronic, and chemical industries; successfully selecting or breeding new seeds of cotton, wheat, and corn; and consolidating the saline-alkali soil and high-frigid land in the experimental zones of Quzhou, Longwanghe, Nanpi, and Zhangbei. While successfully popularizing the results and overcoming the difficulties in science and technology, a good job should be done in continuously making arrangements for or organizing the enforcement of the "spark" and "torch" plans, successfully operating the high-new technological industrial zone in Shijiazhuang City, and in making arrangements for the 80 projects of "spark" plan and the 20 projects of "torch" plan.

In conducting educational undertakings, we should uphold the socialist schooling orientation; continuously put the work of having students be trained in ideology, morality, and political awareness on the first position; and vigorously upgrade the quality of education. We should put our work emphasis of general higher education on stabilizing the scope, optimizing the structure, upgrading the quality, further broadening the scope of specialized knowledge, and on enhancing the adaptation of courses. In further enhancing the elementary education this year, 10 provincial level cities will popularize in an overall way the nine-year compulsory education. In conducting the adult education, we will mainly upgrade the quality and gradually orient the education onto the

track with the on-the-job training classes as the main. In conducting the vocational education this year, we will put our work emphasis on enhancing the management, successfully carrying out unification and coordination, and on enabling the vocational schools of various categories to display their own characteristics. Continuous efforts should be made to eliminate illiteracy and to steadily upgrade the quality of laborers. The province plans to eliminate 200,000 illiterate youths and adults.

In conducting the undertakings of literature and arts, journalism and publication, and radio and television this year, it is imperative to uphold the correct orientation of politics, to regard social benefits as the highest standard, and to vigorously upgrade the quality of spiritual products. The province plans to publish 1.269 billion printed pages of books and periodicals this year and to enable the television mixed coverage to reach 85 percent. We will continuously develop the archives undertaking, gradually improve the managerial conditions, and open 106,000 files of new archives this year. In conducting the public health undertakings, we will put our work emphasis on improving the medical and public health conditions in rural areas and mainly support 20 mountainous areas and poor counties to build their hospitals and towns and townships to build their public health centers. The province will vigorously develop tourist undertakings and plans to receive 50,000 foreign tourists this year and earn \$7 million in this regard. We will also actively promote the development of physical culture and sports undertakings and vigorously carry out the mass activities of sports. The province plans to emphatically support five counties to become advanced in physical culture and sports. Efforts should be made to carry forward the spirit displayed in the Asian Games and to vigorously do a good job in holding the second national urban sports games. We will also further make efforts to successfully conduct the family planning work, to continuously enforce the responsibility systems among the principal responsible personnel at all levels for the attainment of certain objectives, to put the work emphasis on rural areas, to bring two birth or multiple birth under strict control, and to realistically bring the natural growth of population under the plan's target.

J. We will continue to deepen the reform drive in economic systems to promote the healthy development of the national economy and the program of improving the economic environment and rectifying economic order. To ensure the smooth progress of improving the environment and rectifying order and the sustained development of the national economy, it is imperative to unswervingly push forward the program of conducting reform in systems. In line with the state unified arrangements, in conducting reform in economic systems this year, except for further doing a good job in conducting reform in rural areas, first, the province will continue to deepen the reform drive among enterprises in line with the task of reinforcing the vigor of enterprises, particularly large and medium-sized ones; to mainly and rationally readjust the contracting basic figure and the proportion of profits handed over to the state; to enforce

responsibility systems with relatively standardized and comprehensive targets; to ensure the integrity and added-value of state assets; and to vigorously reinforce the reserve strength of enterprises.

We should realistically implement the laws, regulations and policies which the state and the province have already promulgated for invigorating enterprises in places where needed, and exert special efforts to implement the policy measures which the State Council recently formulated for invigorating large- and medium-sized enterprises. We should be determined to grasp the work of checking "random levy of fares, fines and forced donations," realistically reduce the burden of enterprises, continue to deepen the reform of the enterprise leadership system, uphold and improve the plant director (manager) responsibility system, fully display the political core role of the party organizations of enterprises, strive to intensify the joint efforts of the leading level, actively promote enterprise reorganization and association, further develop enterprise groups, and gradually realize the optimization of organization of the essential production factors. Second, we should reform the circulation system. Summing up experiences of the past few years, we come to know that without multiple channels, the markets will not be brisk, and without the main channel, the markets will not be stable. Therefore, we should continue to clear the major channel, develop the "minor channel," and explore ways to display the role of state commercial enterprises as the main channel, to mobilize the enthusiasm of the collective and private commercial sectors, and to invigorate the markets. It is necessary to further improve the consumer goods markets, develop the capital goods markets, promote the development of the markets of the essential factors of production, and gradually improve the normal market order. Third, we should continue to accelerate reform of the housing system. Cities where housing reform has been tried out or started should unceasingly expand and improve the reform work. Cities under the jurisdiction of the provincial government where the reform work has not been carried out should begin or try out the housing reform this year. Through reform, we should gradually promote the commercialization of houses to alleviate the housing shortage and contradictions of residents in cities and towns. Efforts should also be made to gradually reform the old-age pension insurance system, establish and perfect the social welfare benefit system such as the insurance systems for former workers waiting for new jobs, for medical treatment and for wounded workers. Fourth, we should strengthen and improve the macro-economic regulation and control. This year, we should proceed the work with perfecting and improving the system of facilitating a comprehensive balance, rationally readjust the scope and proportion of mandatory plans, guidance plans and market regulations in various sectors, study, improve and comprehensively apply all sorts of economic regulation means and methods, and gradually attain the goal of using economic policies and economic levers to manage and regulate economic activities. Meanwhile, we should actively study and explore

ways to conduct reforms in the financial, taxation, banking, pricing and labor wages aspects.

Fellow deputies:

Beginning this year, our country's socialist modernization construction has entered a new stage of development. To translate the grand blueprint of the 10-Year Plan into reality, we have to exert great efforts. Particularly under the situation in which there are contradictions and difficulties in the current economic life, the tasks of fighting well the first battle during the Eighth Five-Year Plan period will be very arduous. However, as long as the people across the province continue to uphold the party's basic line, conscientiously implement the guidelines of the fourth session of the seventh NPC, further emancipate minds under the correct leadership of the party committee, enhance spirit, work with one heart and one mind, and work in a pioneering spirit, we will be able to overcome all difficulties on our road of advance, and comprehensively fulfill or overfulfill this year's national economic and social development plan.

Liaoning Increases Number of Foreign-Funded Firms

OW2006112091 Beijing XINHUA in English
0625 GMT 20 Jun 91

[Text] Shenyang, June 20 (XINHUA)—Liaoning Province, a heavy industrial base in northeast China, had a total of 116 enterprises involving foreign funds been founded in the first four months of this year, a 93.3 percent increase over the same period of last year.

This is a result of the constant efforts made by the province in improving investment environment and helping foreign-funded firms operate successfully in Liaoning.

The number of registered enterprises using foreign funds in the province has reached more than 1,200.

FINANCE, BANKING

Financial Business Network Rapidly Takes Shape

OW0307073691 Beijing XINHUA in English
0127 GMT 3 Jul 91

[Text] Beijing, July 3 (XINHUA)—China's financial business network is taking shape rapidly and all of the country's provinces, autonomous regions and municipalities except Tibet have established inter-bank capital markets, BEIJING REVIEW reported.

It said that the bond market has been increasingly brisk and by the end of this year, a total of 175.7 billion yuan of various bonds, including national treasury bonds, had been issued.

The business volume of bonds transactions had increased steadily, reaching 13.58 billion yuan last year, it said.

The business volume of foreign exchange markets has also increased, and more than 90 cities have set up foreign exchange circulation centers.

By the end of last year, the total business volume on these markets reached 27.99 billion U.S. dollars and the gap between the market price and the state-set exchange rates is narrowing.

Other financial markets, such as those for short-term bills and various other commercial papers, have also developed rapidly in the country.

It is estimated that more than 300 agencies from 46 companies have been in bond business in China.

Enterprises experimenting with the stock system issued a total of 4.6 billion yuan worth of shares, 1.8 billion yuan of which were sold publicly.

It said that to meet the development of the financial markets, the People's Bank of China recently established a national financial information center in Beijing and a unified financial market is expected to form in the country this year.

INDUSTRY

Minister Discusses Machine-Building, Electronics Aims

HK2405104191 Hong Kong LIAOWANG OVERSEAS
EDITION in Chinese No 19, 13 May 91, pp 13-15

[Article by staff reporter: "He Guangyuan, Minister of Machine-Building and Electronics Industry, Speaks About Development Targets of China's Machine-Building and Electronics Industry in Eighth Five-Year Plan Period"]

[Text] Recently, He Guangyuan, minister of the Machine-building and Electronics Industry, was interviewed by LIAOWANG on the work and development plan for the machine-building and electronics industry in the period of the Eighth Five-Year Plan.

Review of Work Over the Past Five Years

He Guangyuan said: In the period of the Seventh Five-Year Plan, the machine-building and electronics industry made certain achievements in the aspects of adjustment, reform, and development. In general, there were the following characteristics:

The pace of technological progress was quickened. The machine-building and electronics industry, especially the electronics industry, is the "leading industry in promoting China's industrial structural modernization," and is the accelerator and amplifier of China's economic development. Technological progress in the machine-building and electronics industry itself determines or affects, to a large extent, the technological level of various branches of the national economy. In view of this, the machine-building and electronics industry laid

stress on carrying out technological transformation and importing and developing advanced technologies in the period of the Seventh Five-Year Plan, and strove to shift its development onto the path of relying on technological progress. In this period, the ministry arranged 1,309 technological transformation projects, and 84 of them were large and medium-sized projects. By the end of this year, most of these projects will be completed and put into operation. This has improved the equipment of the enterprises and has enhanced their technological level. Since the beginning of reform and opening up, more than 2,000 items of advanced technology have been imported, and 60 percent of these imported items led to successful reproduction of sample equipment or to batch production. The digestion and absorption of some major imported equipment and technology entered the most important stage. In the last five years, more than 12,000 new products have been developed, and 85 percent of mechanical and electronics products needed in various industrial branches can be supplied by domestic manufacturers.

Technological progress promoted the enhancement of product quality in the machine-building and electronics industry. The percentage of quality-tested products in this industry rose from 62 percent in 1985 to about 80 percent in 1990. The percentage of high-quality products in the machine-building industry rose from 22 percent to 32 percent, and that of high-quality electronics products rose from 25 percent to 35 percent. The machine-building and electronics industry possessed a certain technological foundation and capacity for undertaking key tasks assigned by the state and for conducting foreign technical exchanges and cooperation.

The equipment-supplying capacity increased markedly. In the period of the Seventh Five-Year Plan, to meet the needs of various key state construction projects the machine-building and electronics industry organized the various quarters concerned to complete the relevant research and development projects, and provided a large quantity of important equipment sets and electronics systems with advanced technical properties to various branches of the national economy, especially basic industries and infrastructural facilities such as agriculture, energy, transport, raw materials, and communications. For example, there were 300,000-kilowatt and 600,000-kilowatt thermal power generating sets; 500,000-volt ultra-high-tension power transmission and transformation equipment sets; 10-million-ton-class large open mining equipment sets; the second-phase project of the Baoshan Steel and Iron Complex and other large metallurgical equipment sets; 520,000-ton-class large-sized equipment for producing urea; computer networks for railway operations; harbor traffic control systems; and the Air Traffic Control System No. 1. All such equipment attained international advanced levels in the 1980's, and met the urgent needs of various key construction projects. They also achieved very good social effects. For example, the recent successful development of digitally controlled oil well gauging and

surveying equipment settled one of the world's outstanding technical issues, and made it possible to gauge and survey oil wells alongside drilling. In the past, it took 20 days to find out the oil reserves and the depth of the oil layer; now, it takes only one minute to complete this, and the accuracy rate has been raised from 20 percent to 100 percent. The adoption of the new equipment has greatly reduced drilling costs.

In the aspect of serving national defense construction and the development of sophisticated science and technology, the machine-building and electronics industry provided some 6,800 items of complete-set equipment in the period of the Seventh Five-Year Plan, and more than 3 million sets of new products. They included electronics parts for various satellites, intercontinental rockets, submarine-to-surface missiles made, tested, and launched by China, and electronic test and control systems.

Foreign exchange earnings from the export of products increased substantially. In the period of the Seventh Five-Year Plan, the machine-building and electronics industry made great efforts to improve its export structure, reinforce export-oriented production systems, open up export channels, expand international markets, and gradually form a group of main export products and export-oriented enterprises. At present, the industry has set up technical cooperation relations with more than 50 countries and has conducted economic and trade exchanges with over 100 countries and regions. In the period of the Seventh Five-Year Plan, the accumulated value of exported mechanical and electronics products reached \$34.3 billion, an increase of 520 percent over the period of the Sixth Five-Year Plan. In 1990, the volume of foreign trade with regard to mechanical and electronics products reached \$32.5 billion, and exports accounted for \$11.1 billion, which was 6.6 times as much as that in 1985 and marked an average annual growth rate of 46 percent. The proportion made up by electronics in terms of total national exports increased from about 6 percent in 1985 to nearly 18 percent in 1990. Thus, electronics became the nation's second largest export item next to textiles.

At the same time, import substitution in the field of mechanical and electronic products also made substantial progress. More than 1,900 products in 25 groups were included in the import substitution list published by the state. For example, 80 percent of 300,000-kilowatt class thermal power generating sets were provided by domestic manufacturers; 70 percent of Santana cars were produced by domestic car makers; and 95 percent of color television sets were also produced by domestic manufacturers.

The structural reform continued in depth. In the period of the Seventh Five-Year Plan, in light of the objective of building up a new socialist planned commodity economy, the machine-building and electronics industry conducted a series of experiments with structural

reforms in both overall trade management and enterprise management. With respect to overall trade management, stress was laid on making overall planning more effective and exercising better control over the whole trade in order to overcome the outstanding problem of scattered and duplicated production in the machine-building and electronics industry. This changed the disorderly situation in which various quarters of machine-building and electronics enterprises operated in their own way without coordination, and the organizational structure of the enterprises began to develop in the orientation of socialization and specialization for large-scale production. In the last two years of the Seventh Five-Year Plan period, the Ministry of Machine-building and Electronics Industry successively held discussions with relevant ministries and commissions and various provinces and municipalities. This promoted the formation of a consensus of opinion on developing the machine-building and electronics industry among relevant departments and between this ministry and various provinces, thus laying a better foundation for making preparations for the fulfillment of the Eighth Five-Year Plan. Last September, with the approval of the State Council, the State Planning Commission and the Ministry of Machine-building and Electronics Industry jointly issued a document, explicitly stipulating the functions of the Ministry of Machine-building and Electronics Industry in coordinating and managing large enterprises in this industry. This played a positive role in further improving macroeconomic management and control in the industry.

With respect to enterprise management, efforts were mainly made to guide and improve the implementation of the enterprise management responsibility system around the central link of increasing the operation dynamism of enterprises, especially large- and medium-sized enterprises, thus making enterprise management more efficient and effective. Short-term behavior and the neglect of concrete management under the contract system, which appears in a small number of enterprises, was corrected to a certain degree. Most enterprises were more deeply conscious of efficiency, market trends, quality control, and business competition; and a number of advanced enterprises which attained a high management level emerged. In this industry, 958 enterprises won the title of second-class enterprise conferred by the state; and 41 enterprises won the title of first-class enterprise.

Initial results were achieved in economic improvement and rectification. As investment in fixed assets was curtailed in the course of economic improvement and rectification, the machine-building and electronics industry was seriously affected. The sharp decrease in production tasks made a considerable number of enterprises run below capacity. Facing such a stern situation, the machine-building and electronics industry actively implemented the policies for improving the economic environment and rectifying order in the national economy, and concentrated on developing products

which could be exported to earn foreign exchange; which cost less foreign exchange, less energy, and fewer raw materials; and which were needed in order to guarantee key production fields, national defense construction, and an effective market supply. Through adjustment of the product structure and other measures, the machine-building and electronics industry maintained production growth under extremely difficult conditions. In 1989 and 1990, production in the enterprises subordinate to this ministry increased respectively by 5.2 percent and 2 percent over the previous year. The industrial output value in 1990 increased by nearly 68 percent over that in 1985, and the average annual growth rate was a normal one. In the period of the Seventh Five-Year Plan, the total profit-tax contributions amounted to 106.4 billion yuan, an increase of about 70.5 percent over the period of the Sixth Five-Year Plan; and net profits amounted to 73.3 billion yuan, an increase of 49 percent over the previous five years.

As far as products are concerned, the production targets for four out of the seven major mechanical, electric, and electronics products included in the state's Seventh Five-Year Plan, namely, electricity generating equipment, motor vehicles, television sets, and metal cutting machines, were fulfilled ahead of time. The output of the other three major products could not attain the planned targets due to changing market conditions, measures for restraining production, and other factors. In addition, the effective supplying capacity of many major mechanical, electric, and electronics products outside the state plan was greatly increased according to the market demand.

He Guangyuan pointed out: There were quite a few problems in the machine-building and electronics industry in the period of the Seventh Five-Year Plan. For example, such structural problems as the contradiction between departmental management and local management, overlapping production at a low level, and the deficiency of high-level capacity, and such qualitative problems as aging material means, weak adaptability, and low economic efficiency have yet to be fundamentally solved; the external environment of the enterprises' normal production and operation have yet to be improved; and such difficulties as the market's slackness, insufficient production tasks, a shortage of funds, and a serious stockpiling of production may continue for a certain period. At present, production in the machine-building and electronics industry has not completely moved out of a trough.

Main Development Targets in the Period of the Eighth Five-Year Plan

When talking about the future development program, He Guangyuan pointed out: In the period of the Eighth Five-Year Plan, the machine-building and electronics industry will continue to follow a guideline of aiming at demand, providing services, and seeking development in the course of satisfying social demand, and will make efforts to improve product quality, enrich product

variety, raise technological levels, and enhance economic efficiency, thus making contributions to the realization of the second-phase strategic objective in modernization construction.

The main development targets in the period of the Eighth Five-Year Plan are:

- Improving the export structure for mechanical, electric, and electronics products, building several hundred export base enterprises, and reducing the unfavorable balance of payments in import-export trade.
- Quickening the digestion and absorption of imported projects, and quickening the process of developing the same products in our country. If there is a domestic demand for products made with imported technologies, domestic production capacity should be formed and over 70 percent of such products should be supplied by domestic manufacturers.
- Upgrading and renewing the designs for 10,000 types of major mechanical, electric, and electronics products in 20 categories that are produced in large quantities and used widely and are also large energy consumers.
- Ensuring the supply of major complete-set equipment urgently needed in national economic construction according to the set schedule and the qualitative and quantitative requirements, fulfilling the tasks of developing and producing key products, increasing the supply of the technology and equipment needed in key areas of national economic development, and basically meeting the needs of development in agriculture, energy and raw materials production, transport, and communications.
- Making great efforts to improve the quality and technical properties of basic machinery, parts, technologies, and materials.
- Selectively developing some high-tech industries, with priority being given to the development of large-scale integrated circuits, computers, digital intelligence automatic-control systems, and digital-control systems in the period of the Eighth Five-Year Plan.
- Building a number of backbone enterprises and enterprise groups which possess a certain economic scale and considerable competitive power corresponding to the above-mentioned targets, forming a number of scientific research and testing bases that attain an advanced level, and making various provinces and municipalities produce a number of their own staple products of exclusive advantage, thus lowering the degree of improper overlapping in production.

Three Main Measures

He Guangyuan said: According to experiences from the period of the Seventh Five-Year Plan, and to overcome

structural and qualitative problems in the machine-building and electronics industry and achieve the development targets in the period of the Eighth Five-Year Plan, the machine-building and electronics industry will lay stress on fulfilling the three major tasks of adjusting the product structure, enhancing enterprise quality, and strengthening overall control.

Adjusting product structure. First, we shall proceed from the overall needs and set our eyes on long-term development, properly formulate a scheme for adjusting the product structure of the machine-building and electronics industry in the Eighth Five-Year Plan, and lay down reasonable standards for the economic scale of various major products. To adjust the product structure, the production of some products will be boosted and guaranteed, while the production of others will be restrained and curtailed. That is, we shall not only make clear what the products are whose development will be supported and guaranteed, but we shall also make clear what the products are whose production should be restricted or even stopped. We shall resolutely stop producing a number of outdated products. Henceforth, we shall regularly release guides on the development of new products and information about structural adjustment, thus summing up and exchanging successful experiences. The machine-building and electronics industrial management departments in various provinces and municipalities will formulate their own local schemes for adjusting the product structure in light of the ministry's general scheme. They will pay special attention to bringing local advantages into full play, overcoming the tendency to build an all-embracing and self-sufficient production system, and avoid overlapping production.

Second, great efforts will be made to develop a number of key products in light of the state's industrial policy and domestic and international demand. This will mainly include the following products: Integrated circuits and new-type parts, computers and computer software, communications equipment, video recorders, basic machines, basic parts, basic technologies, major industrial equipment, automated control instruments, products needed in agricultural development, and products that can achieve results in economizing on energy and raw materials. In particular, the development of integrated circuits and computers will be put in a position of prominence, and efforts will be made to expand the use of these products in various fields, thus rapidly changing the current backward conditions in this respect and accelerating the process of industrialization and information-led modernization in our national economy.

Adjustment of the product structure will also be closely linked with efforts to promote technological progress. Scientific research projects, technological development projects, and efforts to import advanced technologies and promote the application of research results should all serve the purpose of adjusting the product structure. Technological transformation will be selectively carried

out in research institutes and enterprises that are assigned to develop and produce key products.

Enhancing enterprise quality. First, the enterprise management contract responsibility system will be further improved, the key lying in the establishment of activating mechanisms with full dynamism. In the practice of contracted management in previous years, more attention was given to the selection of contract undertakers and the basic norms and contents of the contracts, but insufficient attention was paid to such issues as how to arouse the initiative, creativity, and wisdom of the working masses. The next step is to improve the management contract responsibility system by guiding the enterprises to devote more attention to tapping their internal potential by establishing an integrated and tightly-knit post responsibility system and a set of reasonable and scientific rules on conducting assessments and giving rewards and punishments. At the same time, the master status of the workers should be ensured. The direct personal interests of all workers, especially the technical professionals and management personnel, should be closely linked with the business results of the enterprise and their personal work performances in order to create an atmosphere in which all are concerned about the enterprise's management conditions and business results, and are highly conscious of the need to raise product quality and economic efficiency. Only in this way can the caliber of enterprise management be continuously upgraded.

Second, we shall strengthen enterprise management. Under the current slack market situation, the primary task for enterprise management is to properly conduct market surveys and forecasts, formulate a correct business development strategy, consistently arrange production in light of demand, and raise the sales rate. It is necessary to exercise comprehensive management over the operation of workshops on the basis of making "technological breakthroughs" and conducting across-the-board quality control, and gradually extend the measures for improving workshop management to the measures for optimizing enterprise management as a whole. The activities of double-increase and double-retrenchment will be carried forward in depth, and cost management will be strictly conducted. Waste and defective products will be reduced to a minimum, material consumption will be lowered, and efficiency in the use of funds will be enhanced by every possible means.

Third, worker training will be properly conducted. A variety of forms, including political study, on-the-job training, technical drills, and skills contests will be adopted in connection with the specific characteristics of the trade and the enterprises to upgrade the political and professional quality of the workers.

Strengthening overall control. On the one hand, we shall continue to hold high the banner of great trade management [do heng ye guan li 1129 5887 2814 4619 3810], and earnestly fulfill the planning, organizing, and coordinating functions of the whole industry as the State

Council authorizes this ministry to do. We shall properly handle the whole-trade planning, and also formulate and implement plans for capital construction, technological transformation, and export-oriented production in the 29 industrial subbranches managed by this ministry during the period of the Eighth Five-Year Plan. We shall formulate an equipment development policy for the machine-building and electronics industry in the period of the Eighth Five-Year Plan, and submit timely policy proposals to the State Council on major issues in the development of the machine-building and electronics industry. We shall also continue to exercise effective unified management over mechanical, electrical, and electronics products in great demand; check the reappearance of unreasonable duplication in production; intensify examination of plans to import machinery and electrical equipment; properly distribute imported equipment; gradually rationalize the prices of mechanical, electrical, and electronics products and perfect the price control system; and readjust export orders of mechanical, electrical, and electronics products so that the export of such products can be brought under better centralized control.

On the other hand, we shall learn and adopt more economic measures for economic management. Various departmental barriers exist as do barriers between departmental management and local management in the machine-building and electronics industry, and unreasonable overlapping in production has been appearing again and again in spite of repeated administrative instructions to ban it. The fundamental reason for this lies with self-interest seeking motivations. Merely resorting to administrative measures and various regulations can hardly achieve effective results in dealing with issues related to economic interests. Therefore, it is necessary to adopt effective and forceful economic measures to advance structural transformation in the machine-building and electronics industry. In concrete terms, we need to selectively concentrate the limited financial and material resources on a small number of large-sized backbone enterprises or enterprise groups with a strong technological foundation in some important industrial subbranches, especially those in which production overlapping is comparatively serious, and adopt a highly responsive policy with respect to technological transformation, working funds distribution, foreign capital utilization, technology importation, and production materials supply. Thus, the material and technological conditions of the backbone enterprises can be substantially improved, and their product quality and prices, costs, delivery punctuality, and service quality in other respects can be substantially superior to those in other enterprises. Thus, industrial structural transformation can be conducted through market competition which lets the good prosper and removes the bad from the scene. It should be pointed out that the enterprises being bolstered must themselves build up highly efficient mechanisms in their internal operations, must have a strong sense of competition, and must not rely merely on external support and keep bungling their operations. The

practice of bolstering several large enterprise groups in the car making industry may be an effective measure in the future.

Furthermore, it is necessary to steadily advance adjustment of the enterprises' structural transformation and thus promote the growth of enterprise groups. The association links inside various enterprise groups should be strengthened. Positive efforts should be made to experiment with the exchange of capital as connecting links within enterprise groups, thus strengthening the rallying force inside the enterprise groups. The practice and experience of some enterprise groups in conducting mergers, holding stocks, assigning and undertaking contracts, concluding leases, changing administrative subordination relations, and thus breaking through the "three unchangeables" should be properly summed up and promoted. The groups should be built into economic entities that can really optimize the composition of various production factors within themselves, thus breaking the closed production pattern which is "big and comprehensive" or "small and comprehensive" and promoting the development of enterprise groups.

He Guangyuan pointed out: In the period of the Eighth Five-Year Plan, in order to fulfill the above-mentioned three major tasks and to achieve the development targets, the machine-building and electronics industry will rely on its own strength and efforts. In addition, it also needs to have recourse to certain necessary overall management measures that the state has given to the ministry and some necessarily favorable policies for large- and medium-sized enterprises whose production is crucially related to the national economy and the people's livelihood, thus appropriately amplifying the effects of investment in the machine-building and electronics industry.

The Strategic Objective for the Year 2000

Finally, He Guangyuan briefly talked about the strategic objectives of the machine-building and electronics industry for the year 2000:

- Large complete-set equipment and key products needed in various areas of the national economy to be mainly supplied by domestic manufacturers.
- Striving to reduce the foreign trade deficit in the aspect of mechanical, electrical, and electronics products and realize a basic balance between imports and exports in this field.
- Basic and key parts of various mechanical, electrical, and electronics products basically suited to the main equipment.
- Microelectronics and computer technology applied widely, and marked progress made in the integration of the machine-building and electronics industry.
- Substantial progress made in the improvement of technology and the specialization of parts production.

—Building up a number of leading enterprise groups that can promote the development of the whole industry and produce major products with international competitive power, while building up a number of scientific research bases to a modern advanced level.

More Construction Machinery Entering World Market

*OW0407103691 Beijing XINHUA in English
0214 GMT 4 Jul 91*

[Text] Beijing, July 4 (XINHUA)—More China-made construction machinery is elbowing its way into the world market, today's ECONOMIC INFORMATION DAILY reported.

Last year China earned 71 million U.S. dollars from exports of construction machinery, 3.6 times the figure of the previous year, according to the newspaper.

China is able to produce 400 kinds of construction machinery in 1,000 specifications. These products have reached the international level of the early 1980s, the newspaper quoted Du Zonghan, general manager of the China Construction Machinery Corporation, as saying.

According to Du, over the past few years the country has invested some 600 million yuan to carry out large-scale technical upgrading for a group of key construction machinery producing enterprises, greatly enhancing the variety and quality of their construction machinery. Some products have begun to replace imports.

The country now has three construction machinery export bases, and the number of enterprises producing construction machinery for export has also increased from 49 in 1989 to the present 74.

Shandong Opens First Yarn, Cloth Wholesale Market

*OW1007204491 Beijing XINHUA in English
1352 GMT 10 Jul 91*

[Text] Jinan, July 10 (XINHUA)—The Shandong Cotton Yarn and Cloth Wholesale Market, the first of its kind in China, opened in Jinan, capital of Shandong Province, today.

An official in charge of the market administration said that the establishment of the market means a start to commercialization of these goods, which used to be allocated entirely by the government.

Representatives of some 167 units from 18 provinces, municipalities and autonomous regions attended the opening ceremony of the wholesale market. In the morning alone, the volume of business reached 64 million yuan.

Shandong is one of the largest bases of the textile industry in China. The output of cotton yarn and cloth in 1990 covered 13.9 percent and over 11 percent, respectively, of the country's total.

Meanwhile, it is learned that a similar but larger wholesale market will open in Shanghai soon.

FOREIGN TRADE, INVESTMENT

Review of Foreign Trade Along Inland Borders

91CE0593A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 3, 20 Mar 91 pp 61-69

[Revised draft of September 1990 article by Ma Jun (7456 7486), PhD candidate in economics at Georgetown University, United States, and Zou Gang (6760 0474), visiting research fellow at University of Southern California, United States; Responsible editor: Yun Mei (7301 2734): "On Opening Up China's Inland Border Provinces and Autonomous Regions to the Outside World"]

[Text] I. The Necessity of Opening Up China's Inland Border Provinces and Autonomous Regions to the Outside World

China's inland border runs along the nine provinces and autonomous regions of Liaoning, Jilin, Heilongjiang, Inner Mongolia, Xinjiang, Gansu, Tibet, Yunnan, and Guangxi; these provinces account for 61.7 percent of China's land area and 21.2 percent of our population. As Liaoning has a much longer coastline than an inland border, we are classifying it in this article as part of China's "coastal" zone instead of part of our "inland border" zone.

Economic development in this eight-province (autonomous region) inland border zone clearly lags behind that in China's eastern coastal zone. In 1988, per capita GNP in these eight provinces and autonomous regions averaged 64.9 percent of that in the coastal zone; the 1,457 per capita GNP in Heilongjiang, which is the inland border zone's highest, is still lower than the coastal zone average of 1,623 yuan; the 737 yuan per capita GNP in Guangxi is the inland border zone's lowest. Except for Heilongjiang and Jilin provinces, industry accounts for a clearly lower percentage of national income in these border provinces and autonomous regions than it does in China as a whole. Moreover, it should be noted that there is a steadily widening economic development gap between China's inland border and interior zones and our eastern coastal provinces. From 1979 to 1988, the GNP of the inland border and interior zones grew at an average of only 8.9 percent a year, while this figure reached 10.5 percent in the coastal zone. In the last decade, fixed assets investment also increased at a faster rate in the coastal zone than in any other. Moreover, both the absolute and relative differences in living standards between coastal and other zones are also increasing.

A crucial question, which is directly related to the disparity in growth rates among various regions, is how great of an impact does the Central Government's development strategies for various regions actually have on

whether average rates are exceeded? In reply to this question, winning appropriate input policies to achieve faster growth will be of key significance to the inland border region. Having analyzed the special and preferential policies won by the coastal zone from 1979 to 1988, we have found that they were all aimed at promoting foreign trade and investment in the coastal zone, which has resulted in a rapid growth of the externally-oriented economy and foreign investment in the coastal zone. In 1988, the coastal zone had a foreign trade turnover of \$61.92 billion, accounting for 82.38 percent of China's foreign trade, and had \$4.29 billion in foreign investment, or 76.59 percent of that throughout China. As for China's exports, the coastal zone also basically has a monopoly on the export of manufactured goods.

The fact that China's foreign trade is concentrated in the coastal zone has led us to the hypothesis that the higher economic growth rates in the coastal zone can be attributed to "increased foreign trade." Excluding foreign trade growth, GNP growth rate should be the same in the coastal zone as in other regions. In order to test this hypothesis, we calculated GNP growth rates for various regions excluding exports (See Table 1).

Table 1. GNP Growth Rate Excluding Exports
(1979-1980)¹

Region	Average Annual GNP Growth Rate	Average Annual GNP Growth Rate Excluding Exports
The Coastal Zone	10.5 percent	7.90 percent
Other Regions	8.9 percent	7.95 percent
China	9.8 percent	7.93 percent

Note: This table is based on data from the CHINA STATISTICAL ABSTRACT (1990) and the *China Foreign Economic Relations and Trade Yearbook* (1989).

These results proved our hypothesis. Excluding the part of GNP accounted for by exports, the average annual GNP growth rate is almost the same for the coastal zone as it is for other zones. Of course, we could also use the actual foreign investment disparities among various regions to explain their differing fixed assets investment growth rates, and come up with similar results. Thus, we can infer that the special open policy enjoyed by the coastal zone is the key factor in its higher growth rates.

The coastal zones's natural advantages in opening up to the outside world are that it can engage in trade and economic cooperation with its neighbors and coastal countries or regions through sea routes at a lower shipping cost. Actually, all inland border provinces and autonomous regions also have similar, and sometimes even clearer geographic advantages, with which to expand trade and economic cooperation with neighboring countries and regions. However, these advantages, which could become the key factor in faster inland border zone growth, have not been given the proper attention; regional policies do not mention an open policy for the inland border zone; and pilot projects to

establish "free trade zones" or "SEZ's" in the border zone remain in a discussion stage.

We will try to prove in this article that, even though the inland border zone has just begun to open up to the outside world, even though it engages in very little border trade on a very small scale, and even though it basically carries out no technical and economic cooperation with neighboring countries or regions, its opening up to the outside world is absolutely not in a state of complete stagnation. Once substantive advances are won in border zone open policy, it is entirely possible that they will result in increased effective demand, an upgraded industrial structure, and thus, the evolution of a good economic cycle of domestic raw materials, foreign markets, and money and technology imported from other provinces and abroad.

II. The Basic Foreign Trade and Investment Structures of China's Inland Border Provinces and Autonomous Regions.

In 1988, the foreign trade turnover of these eight inland border provinces and autonomous regions was \$4.52 billion, or 6.01 percent of China's foreign trade. Their export dependence² was 5.87 percent³, and their import dependence was 2.34 percent. While their import and

export dependence were both lower than those of the coastal or interior zones, their export dependence was clearly higher than their import dependence (as in coastal provinces), which shows that they have a certain amount of export advantages.

Most of the foreign trade of these eight inland border provinces and autonomous regions is carried out with Europe, the United States, and East Asia, while very little of it is border trade with neighboring countries.⁴ Border trade includes local border trade carried out by foreign economic relations and trade units at the border province (autonomous region) level, minor trade carried out by foreign economic relations and trade units below the provincial (autonomous regional) level, and trade among border-area inhabitants.) In 1988, the border trade turnover of these eight inland border provinces and autonomous regions (excluding trade among border-area inhabitants) was \$538.13 million, or 11.79 percent of their foreign trade. There is a very wide gap between the border trade and foreign trade of these eight inland provinces and autonomous regions. Border trade accounts for the biggest percentage of foreign trade (over 38 percent) in Yunnan and Tibet, this figure is 24.35 percent for Inner Mongolia; Xinjiang, Jilin, and Heilongjiang are next, and Guangxi and Gansu have almost no official border trade (See Table 2).

Table 2. 1988 Border Trade of Inland Border Provinces and Autonomous Regions (per \$10,000)

Region	Border Trade Turnover	Border Trade Import Turnover	Border Trade Export Turnover	Percent of Foreign Trade Accounted for by Border Trade
Liaoning	505	247	258	0.10
Jilin	6,559	3,233	3,326	8.66
Heilongjiang	9,529	4,335	5,194	7.51
Inner Mongolia	9,674	4,521	5,153	24.35
Guangxi				
Yunnan	23,145	10,083	13,062	38.98
Tibet	820	216	604	38.72
Gansu				
Xinjiang	3,599	1,777	1,822	8.68
China	53,831	24,412	29,419	0.52

Source of Data: *China Customs Statistical Yearbook (1988)*

Note: This table does not include data on trade among border-area inhabitants.

China's political relations with neighboring countries obviously have a significant impact on border trade development. Sino-Soviet border trade peaked in the 1950's and 1960's, was discontinued in 1967, but began to recover in 1982. Sino-Mongolian border trade experienced similar changes as Sino-Soviet border trade. While Xinjiang and Tibet carried out a sizeable border trade with India in the mid-1950's, when India was Tibet's major trading partner, since the 1960s the Sino-Indian border has been closed and Sino-Indian border trade is still very small and mostly indirect. There was also a small amount of Sino-Burmese border trade in the early 1950's. Since Yunnan opened all of its border cities

and counties in the 1980's, Yunnan-Burmese border trade has expanded rapidly to give Yunnan the fastest expanding border trade of all inland border provinces and autonomous regions. After Sino-Vietnamese border trade was discontinued in 1978, although trade among border-area inhabitants resumed in 1983, local and minor Sino-Vietnamese border trade has still not resumed. As international political relations have become more relaxed in recent years, and the political stalemates among many Asian neighbors are gradually thawing, there are generally good prospects for expanding border trade between China and its neighboring countries.

These good prospects for expansion of border trade in the inland border zone are not limited to opening up new markets and earning better profits through commodities trade, but expanded border trade will also be of key significance in optimizing the trade and industrial structures of the inland border provinces and autonomous regions. Table 3 shows that manufactured goods accounted for 62.2 percent of their border trade export mix in 1988. Moreover, manufactured goods accounted for less than 30 percent of export turnover in most of these inland border provinces and autonomous regions (25.4 percent in Heilongjiang, 29.9 percent in Inner Mongolia, and 36.0 percent in Guangxi for 1987),⁵ and manufactured goods accounted for a far higher percentage of their border trade export mix than of their overall export turnover. The basic factor in the evolution of this dual export mix was the major difference in demand between the target markets of border trade and those of trade with other regions by these inland border provinces and autonomous regions. Except for the Soviet Union, the other border trade targets of Mongolia, Pakistan, India, Nepal, Sikkim, Bhutan, and countries in the South China peninsula, are all undeveloped regions. Most of their per capita national incomes are similar to China's, some being even clearly lower, and many of their commodity demand structures are also similar to China's, so that Chinese-made light consumer goods and mechanized manufactured goods, including sizeable amounts of medium- and low-grade products, have huge markets in these countries; whereas exports from inland border provinces and autonomous regions to East Asian, European, and U.S. markets are mostly agricultural, sideline, and mineral products. As the world market trend is toward a continuing decline in the prices of primary products, the prospects for earning foreign exchange by exporting primary products are certainly not optimistic. Moreover, as far as China's domestic demand is concerned, since China is still having trouble supplying its own demand for primary products, such as raw materials, increasing exports would only exacerbate China's own shortages. As the inland border provinces and autonomous regions are China's key primary product bases, maintaining a long-term structure of exporting mostly primary products would be harmful to them. Under such conditions, shifting a sizeable number of export target markets to neighboring countries that are underdeveloped or undeveloped, would be in line with the need of the inland border zone to change its export mix.

Table 3. Border Trade Export Mix (1988)

Commodity Category	Export Turnover (per \$10,000)	Percentage
Total	29,420	100
Cooking Oil	1,363	4.6
Food	5,819	19.8
Livestock Products	2,094	7.1
Textiles	7,802	26.5

Table 3. Border Trade Export Mix (1988) (Continued)

Commodity Category	Export Turnover (per \$10,000)	Percentage
Light Manufactured Goods	5,329	18.1
Industrial Chemicals	10,250	34.8
Primary Products	11,109	37.8
Manufactured Goods	18,311	62.2

Note: This table is based on data in the *China Customs Statistical Yearbook (1988)*

A comparison of the border trade growth with the actual foreign investment in the inland border zone does not inspire optimism. In 1988, the eight inland border provinces and autonomous regions accounted for 6.01 percent of China's foreign trade turnover, but only 3.64 percent of the foreign investment in China,⁶ which left their foreign investment only 0.61 percent of their foreign trade. That this figure is 1.50 percent for the coastal zone but only 0.58 percent for the interior, shows that while the inland border zone basically has almost as much foreign investment as the interior as a whole, it clearly has less than the coastal zone.

As to the policies issued by all provinces and cities to attract foreign investment, there is certainly not much difference in the policies toward foreign-invested enterprises, such as tax preferences, duty-free raw materials imports, and free transfer of profits out of the country. While certain of the most undeveloped inland border regions (such as Tibet) have even more preferential policies than other provinces, they have certainly not achieved corresponding results. We have found that the attempts to attract foreign investment have not "blossomed everywhere," even in the coastal zone, which has the best geographic conditions and investment climate. Foreign investment in the coastal zone is now being attracted mostly by SEZ's and EDZ's. For instance, the Shenzhen and Zhuhai SEZ's had accounted for 46.3 percent of Guangdong's actual foreign investment by the end of 1987, while the Xiamen EDZ accounts for 50.8 percent of Fujian's foreign investment. As most of the inland border provinces and autonomous regions are located far from seaports and have relatively complex geographic conditions, they have even less possibility of attracting funds from developed countries. If the inland border provinces and autonomous regions are not given certain SEZ's and EDZ's that enjoy more preferential policies, but are limited to the uniform national policy on attracting foreign investment, it is hard to imagine them making any major increase in their foreign investment.

In order to either expand foreign trade or attract foreign investment, the inland border zone must generally bring into full play its geographical and natural resource advantages that are favorable to opening up markets in neighboring countries.

III. The Status Quo of, Problems Involved In, and Prospects for Opening Up China's Inland Border Provinces and Autonomous Regions to the Outside World

1. Heilongjiang-Soviet Union

The Soviet Union has continued to be one of Heilongjiang's major trading partners in recent years. In 1985, Heilongjiang's exports to the Soviet Union reached \$150 million, or 21.8 percent of its exports, and even more than its exports to Hong Kong. In 1987, Heilongjiang's exports to the Soviet Union reached \$174 million, second only to its exports of \$193 million to Hong Kong. In Heilongjiang's trade with the Soviet Union, border trade has clearly grown faster in recent years than intergovernmental trade. By 1987, border trade units on the three management levels of provincial, cities under the jurisdiction of the provincial government, and border cities and towns were engaging in border trade with the far eastern region of the Soviet Union, and by 1988, Heilongjiang's border trade with the Soviet Union had reached 196.14 million Swiss francs (\$134.59 million).⁷

Despite this, Heilongjiang's economy has a very low foreign trade reliance. In 1988, Heilongjiang's export reliance was 7.37 percent, and its import reliance was 1.95 percent, both of which were clearly lower than the national averages of 12.6 percent and 14.7 percent, respectively. It is out of line that Heilongjiang's ratios of per capita GNP and manufacturing industry output to foreign trade are both higher than the national averages. This is related to Heilongjiang's longstanding export mix of mostly agricultural sideline products. In 1987, 70 percent of the gross value of Heilongjiang's exports to the Soviet Union was accounted for by food products, such as grain and cooking oil, while Soviet markets with a large demand for products, such as light manufactured goods, textiles, and durable consumer goods, were far from having been fully opened up. Changing this export mix is a key step that Heilongjiang should take to increase its trade with the Soviet Union. First, Heilongjiang should gradually change its export mix from mostly grain and cooking oil to one that gives equal emphasis to food products that are processed in-depth, light manufactured goods, textiles, and machinery and electronics products. This would be suited to changes in Soviet market demand, while being a good opportunity for Heilongjiang to gradually replace the coastal provinces' monopoly on textile, machinery, and electronics product exports to the Soviet Union, and to upgrade its industrial structure by becoming more export-oriented. Second, the expansion of Heilongjiang-Soviet trade should become gradually oriented over a long period of time toward funds, technology, and production cooperation. Chinese technology, manpower, and even funds could be introduced to the far eastern Soviet Union to build certain light industrial and textile enterprises, in order to help the Soviet Union make up severe consumer goods quantity and variety shortages that have appeared in recent years, and to save on the cost of directly

importing large amounts of products. In principle, all current Soviet imports of Chinese products contain the possibility of Chinese investment in building enterprises in the Soviet Union. Heilongjiang could also rely on its rich resources, such as forests, oil, coal, and forestry, to strive for Soviet investment and technical cooperation in building a number of petrochemical enterprises, coal mines, and power plants that use Soviet technology.

The introduction of foreign investment and technology to Heilongjiang is still in an initial stage of development. From 1984 to 1987, there was only \$145 million of foreign investment in Heilongjiang, most of which was concentrated in a few cities, such as Harbin and Mudanjiang, which left a foreign investment gap in most other cities and counties. Hong Kong was Heilongjiang's major source of foreign investment, accounting for 78.9 percent in 1987, while the Soviet Union accounted for none. But in fact, while Heilongjiang is certainly not clearly more appealing than the coastal zone in attracting Hong Kong, Japanese, and U.S. investment, its border with the Soviet Union and its heavy industrial structure per se give it very favorable conditions for attracting Soviet investment. Even though the Soviet Union cannot export many funds because of the domestic economic difficulties that it has been experiencing in recent years, gradually intensifying trade cooperation as a forerunner for future fund cooperation may yet become a key part of Heilongjiang's long-range development.

It is worth noting that the benefits from Heilongjiang's development of economic cooperation relations with the Soviet Union will not be limited to Heilongjiang itself. As a window for opening up to the Soviet Union, Heilongjiang's progress in expanding trade with the Soviet Union and importing applicable Soviet technology will promote cooperation with the Soviet Union by all three of China's northeastern provinces (Heilongjiang, Jilin, and Liaoning).

2. Yunnan-Burma

Yunnan accounts for 1,997 km of China's 2,186-km border with Burma. In 1988, Yunnan's local border trade with Burma reached 860 million yuan, and trade among its border-area inhabitants was 400 million yuan, giving it a border trade worth 1.26 billion yuan. Yunnan has the largest border trade of all of China's inland border provinces and autonomous regions. Chinese products now account for about 65 percent of the sales on Burma's nongovernmental markets.⁸

The period of fastest growth for Yunnan-Burmese border trade has been mostly since 1985. For instance, in Yunnan's major border trade region of Dehong Aut. Pr., minor and border-area-inhabitant trade was 184 million yuan in 1984, but had increased to 329 million yuan by 1985. From 1985 to 1988, its border trade increased at an average rate of 32.8 percent a year.⁹ The major factor in such a fast growth rate was the bold open policy that Yunnan adopted toward border trade.

Since 1985, the government of Yunnan Province has designated its 27 border counties as a border-area-inhabitant trade zone, and abolished its former restrictions on trade turnover per person per time. This policy of eased control has enabled trade among border-area inhabitants to develop spontaneously at a fast pace. Along with the sharp increase in trade among border-area inhabitants, the percentage of goods bought in such trade for personal use has decreased quickly, so that about 80 percent of the current trade among border-area inhabitants is aimed at profitmaking. In February 1985, Yunnan Province also opened up Dehong Aut. Pr. on its border with Burma as a "border trade zone," which expanded border trade throughout Dehong Aut. Pr. This was effective in allowing state-owned and collective enterprises in Dehong to take part in border trade, allowing industrial and commercial enterprises from Yunnan or abroad to set up joint ventures or wholly foreign-owned enterprises in Dehong, allowing foreign trade commodities to be sold on markets throughout China or abroad through entrepot trade, removing minor trade from provincial export plan restrictions, abolishing import-export licenses, and giving tariff reductions or exemptions to 154 import products.

The "border trade zone" policy in Dehong is the most open border trade policy in China's inland border zone. This open border trade zone has enabled Dehong's economic might to grow quickly. The percentage of Dehong's revenue from border trade taxes and profits increased sharply for several years in a row, from 10.6 percent in 1983 to 40 percent by 1987. Increased border trade also provided the demand to upgrade Dehong's industrial structure. Local export-manufacturing, communications and transportation, and tourist industries, as well as many trades connected to border trade, all achieved unprecedented growth. Even more importantly, the opening up of the border trade zone has begun to attract foreign investment.

Even though Yunnan-Burmese border trade is still increasing, Burmese import substitutes for Chinese products that are evolving out of trade competition from Thailand and investment in Burma by various industrialized East Asian nations have become a stiff challenge to Yunnan exports to Burma. Once Thailand goes all out to open up Burmese markets, Chinese products, and Yunnan's in particular, are going to be inferior as to product mix and quality. Faced with this challenge, gradually elevating Yunnan's "border trade zone" to a "border trade and export-manufacturing zone," should become a key option to maintain and develop Yunnan's export advantages with Burma.

The investment in this "export-manufacturing zone" on Yunnan's border should come mostly from more developed coastal and inland provinces and abroad. Even though Yunnan's economy is quite undeveloped, as Burma and the Indo-Chinese countries are generally even less developed, Yunnan still enjoys a certain amount of advantages as a step in the ladder, in which

products and technologies from developed coastal provinces could flow into Yunnan, in order to open up markets in Burma and the Indo-Chinese countries. Most of Yunnan's exports to Burma of domestic light manufactured goods and farm machinery now come from other provinces, and the cost of this "entrepot trade" is high. In order to reduce product shipping costs and stimulate Yunnan's local economic development, domestic enterprises outside of Yunnan should be encouraged to invest in setting up factories in Yunnan's "border trade and export-manufacturing zone," so that Yunnan's local resources can be directly utilized as much as possible to increase production of products for export to Burma. Using Yunnan and China's existing technology to greatly expand export industries, such as tobacco, tea, food processing, light industry, and farm machinery, should become the key industrial policy of the border export-manufacturing zone. Foreign investment could be focused on Yunnan's mining industry development, export-manufacturing, and processing of major industrial chemical raw materials.

3. Guangxi-Vietnam

Guangxi is a coastal province, while also having an inland border with Vietnam. Historical and political factors have kept Guangxi for decades from becoming a hotbed of development. In 1988, Guangxi's per capita national income was 623 yuan, or only 41.6 percent of Guangdong's. While Guangdong's externally-oriented economy has grown by leaps and bounds, and its export reliance has reached 49.6 percent, Guangxi's export reliance is only 6.8 percent. Moreover, 64 percent of Guangxi's 1988 export mix was primary products¹⁰ which percentage was far higher than the national average of 30.4 percent.

Despite this, Guangxi has certain economic development advantages over its three neighboring Indo-Chinese countries. The Indo-Chinese region has the lowest per capita national income in Asia, clearly less consumption than China, and a demand structure that highly coincides with Guangxi's manufactured goods export mix. In this respect, Guangxi has quite favorable prospects for acquiring markets in Vietnam and Indo-China through expanding border trade.

As the major current form of Sino-Vietnamese trade, border trade (mainly trade among border-area inhabitants) has been growing quickly in recent years. Customs statistics from producing areas show that Chinese exports to Vietnam in 1988 amounted to \$168,600.¹¹ (These were mostly indirect exports to Vietnam through other countries or regions, and do not include trade among border-area inhabitants.) But statistics from the four Guangxi counties of Ningming, Pingxiang, Longzhou, and Daxin, show that 1988 trade turnover among border-area inhabitants amounted to about \$6.2 million. This shows that trade turnover among border-area inhabitants is far greater than Chinese exports to Vietnam through indirect trade, and implies the full

possibility of spontaneous "direct trade" among border-area inhabitants replacing indirect exports.

But as Sino-Vietnamese political relations have not yet been normalized, Guangxi's border trade policies still stipulate that state-owned and collective businesses may not take part in border trade. In comparison to the economic exchange policies of places such as the coastal zone and South Korea, these policies seem a bit too overcautious. In fact, not allowing state-owned and collective enterprises to take part in border trade has severely imbalanced the border trade organizational structure. For instance, the individual industrial and commercial enterprises that are the major border traders lack funds, which makes it hard for them to lay in large stocks of goods. Export commodity mix is affected by fund limitations and overemphasizes small commodities. And trade being divorced from industry and agriculture makes it hard to quickly translate export market demand information into enterprise production signals. Thus, the scope and structure of border trade have been forced to remain at an elementary stage.

While Guangxi's border trade is still affected by policy limitations, Vietnam's economic open policy has undergone the following spectacular changes: 1) Development of privately owned industrial and commercial enterprises has been encouraged. Vietnam's policy of commercial liberalization has brought a large increase in the number of Vietnamese businessmen in China, and Chinese products imported through trade among border-area inhabitants make up an important percentage of Vietnam's commodity sales. 2) Preferential policies have been drawn up to attract foreign investment. The "Law on Foreign Investment in Vietnam," which was issued by the Vietnamese Government in 1987, and subsequent detailed rules and regulations, have rapidly increased the number of Vietnam's interested foreign investors. The Vietnamese Government approved \$400 million of foreign investment in 1988.

As far as Guangxi, which has geographic conditions similar to Vietnam, is concerned, these changes have the following important implications: 1) Guangxi's existing exports to Vietnam could become import substitutes along with improvements in Vietnam's economic conditions. Thus, Guangxi should take full advantage of Vietnam's manufactured goods shortage of recent years, by easing its policies to increase exports, while promptly adjusting its product mix aimed at Vietnam's market changes. 2) The increased investment in Vietnam by industrialized countries is a comparative result of the foreign investment appeal of all southern Chinese provinces and of the Indochina peninsula. Guangxi should display an adequate sense of urgency and flexibility in this competitive process.

In order for Guangxi to increase its border trade with its neighboring countries, it should make easing its policies a task of top priority. While Yunnan's economic development is similar to and its geographic conditions are poorer than Guangxi's, the open border trade policy that

Yunnan has adopted has brought its border trade turnover with Burma to account for 43 percent of China's inland border trade. Guangxi should learn a lesson from Yunnan's border trade policy with Burma, and expand its border trade with target markets in the three Indo-Chinese countries, by taking the following steps: 1) It should abolish its restriction that limits border trade to the area within 20 km of its border, increase its border trade zone first to all border cities and counties, and then to the whole autonomous region. 2) It should allow and encourage state-owned and collective enterprises and business organizations to take part in trade among border-area inhabitants, which should be gradually developed into future local border trade. Through establishing a series of border trade export-oriented management entities with coordinated production, supply, and marketing, it should quickly increase its export product production capability and improve its export mix. 3) It should take active steps to attract foreign investment, by establishing an EDZ with SEZ characteristics and coordinated inland border export-manufacturing and trade. Whether Guangxi can make substantive progress in attracting foreign investment, will affect whether it can preserve its long-range trade advantages with Vietnam and improve its export product mix.

4. Xinjiang-Central and Western Asia¹²

Xinjiang has a 5,400-km border with the five countries of the Soviet Union, Pakistan, Afghanistan, Mongolia, and India. As Xinjiang is located in the center of Eurasia and very far from any seaports, its overland trade shipping costs are clearly lower than its maritime trade shipping costs. But in fact, 70 percent of Xinjiang's exports still pass through coastal ports, and its major markets are Europe, the United States, Japan, and Hong Kong. In 1988, Xinjiang had a foreign trade turnover of \$415 million, of which only 8.0 percent was border trade with the Soviet Union, and its border trade with countries, such as Pakistan, was also very minor. Either in comparison to its neighboring provinces, or as to the percentage of its foreign trade accounted for by border trade, Xinjiang is far from having fully developed border trade markets with its neighboring countries.

In fact, Xinjiang has significant prospects for cooperation with its adjoining region in the Soviet Union, Western Mongolia, and even Western and Southern Asia. Xinjiang has many similarities with these regions in areas, such as national religious beliefs, customs, and habits, and Western and Central Asia also have about 300,000 Chinese and overseas Chinese from Xinjiang. As to its existing border trade, Xinjiang's light manufactured goods for daily use and textiles are very well received, and its trade cooperation with the Soviet Union has expanded into fields such as construction contracting, labor cooperation, and equipment and technology exchange. In addition, as the Persian Gulf countries have large amounts of surplus cash, having already invested \$450 billion abroad, they could become a key source of foreign investment in Xinjiang.

Xinjiang should gradually revise its foreign trade and investment orientation strategy by focusing on opening up to Central and Western Asia. This certainly does not imply that it should give up its existing markets in East Asia, Europe, and the United States, but says rather that it has more immediate prospects for future trade growth with Central and Western Asia. In coming years, expanding its trade with Central Asia, including the five Soviet republics of Kazakh, Uzbek, Kirghiz, Tadzhik, and Turkmen, and Western Mongolia, could become Xinjiang's first step in revising its foreign trade strategy.

In order to increase its border trade with neighboring regions, Xinjiang will have to further ease its foreign trade policies. As opposed to Guangxi, Xinjiang's major forms of border trade with the Soviet Union are procurement of products by local border trade companies, and trade through agreements with local Soviet border governments; while trade among border-area inhabitants plays a smaller role. However, existing border trade companies lack flexible mechanisms to open up markets and develop new commodities, foreign trade companies are divorced from production enterprises, and there are longstanding problems in the areas of export production technology and product quality. In order to change this, Xinjiang must reform its current official foreign trade system so that it can more flexibly adapt to markets on one hand, while fully encouraging collective and individual businesses to take part in border trade on the other. As China's major door to the Northwest, Xinjiang should also do all it can to encourage expansion of entrepot trade from interior and coastal provinces to Central and Western Asia.

5. Inner Mongolia-Mongolia

In 1988, Inner Mongolia's border trade with the Soviet Union (not including trade among border-area inhabitants) amounted to \$87.32 million, or almost as much as Heilongjiang's border trade with the Soviet Union. Moreover, Inner Mongolia has been vigorously developing Mongolian markets. Inner Mongolia's 1988 border trade with Mongolia (not including trade among border-area inhabitants) reached \$9.4 million. As most of Inner Mongolia's national border is with Mongolia, and Inner and Outer Mongolia have similar levels of economic development, they have a great potential for further expanding their border trade.

Inner Mongolia's major foreign exports are now local livestock products, food, and minerals, while Mongolia's major imports from China are textiles and light manufactured goods. This shows that Inner Mongolia's current export production structure is clearly divorced from Mongolia's import demand structure, so that Inner Mongolia's expansion of border trade with Mongolia relies on entrepot trade in coastal and interior products. This increases trade costs, while forfeiting the effect of border trade in stimulating Inner Mongolia to expand production. Thus, Inner Mongolia needs to draw up a border trade strategy aimed at markets in neighboring countries,

which will improve its export production competitiveness to replace its coastal and interior entrepot trade. Inner Mongolia can look forward some years in the future to the evolution of the following dual export structure: 1) Exports to Europe, the United States, and Hong Kong through seaways, plus entrepot trade with Mongolia and the Soviet Union, mostly in primary products; 2) Mainly border trade with mostly Soviet and Mongolian markets, focused on expansion of light textile industry exports, and gradual development of export trade in electronics products and household electrical appliances.

Along with expansion of their border trade, Inner and Outer Mongolia have begun to enter a more advanced phase of economic and technical cooperation. By July 1989, Mongolian and Inner Mongolian international economic and technical cooperation companies were engaged in 272 cooperative projects, most of which had been launched in the preceeding two years. These projects included office building maintenance, joint iron ore mining, and joint venture hotels.

This shows that Inner Mongolia and Mongolia have bright prospects for foreign economic relations and trade cooperation. In fact, as Mongolia is a landlocked country, shares one-half of its border with Inner Mongolia, and has an interrelated nationality blood relationship with Inner Mongolia, expanding its trade and economic cooperation with Inner Mongolia is a practical option for its opening up to the outside world. Inner Mongolia should seize the opportunity to boldly encourage all means of trade development with Mongolia by promptly resolving its transportation shortage problems.

6. Tibet-India

The Tibetan Autonomous Region has a more than 3,800-km border to the south with India, Nepal, Sikkim, Bhutan, and Burma, and to the west with Kashmir. As it is located in China's southwestern border plateau, and has poor transportation links to the rest of China, which makes its trade costs with interior provinces very high, border trade with its neighboring countries is often more profitable. In 1988, Tibet-Nepal border trade amounted to \$8.2 million, or 38.7 percent of Tibet's foreign trade turnover.

Tibet's major step to expand its border trade should be to resume and develop as quickly as possible its border trade relations with India. Tibet's major trading partner is now Nepal, and it conducts very little border trade with Sikkim, Bhutan, or Burma. Tibet is able to conduct only a small amount of indirect trade with India through businessmen in Bhutan and Nepal. As Tibet's existing border trade partners have relatively undeveloped economies, small market capacities, and low rates of sustained economic growth, except for the possibility of further expanding minor trade and trade among border-area inhabitants, Tibet does not have many immediate prospects for significant economic and technical cooperation with them. As the country with the world's second

largest population, India's markets are immeasurable. Although India's foreign investment has not increased much in recent years, it remains at 1.2 billion rupees a year, and is concentrated mostly in developing countries (97.9 percent), which is very attractive to Tibet. Tibet should take a positive approach, by striving to open up direct trade ports with India as quickly as possible.

IV. Conclusions

1. Practice has proven that while a region can achieve a certain amount of growth by relying on its own markets, funds, and technology alone, the rate of such growth will be limited. The cause of the longstanding backwardness of so many of the provinces and autonomous regions in China's inland border zone is their closed pattern of development. In comparison to the coastal zone and the interior, the inland border zone is a vaster and more thinly populated area, has less per capita consumption, and has a manufacturing industry in its industrialization process whose development is more limited by its market and resource capacities, so that it is hard for it to compete with the coastal zone for foreign markets with its existing technology. We have noted in this article that, under existing conditions, vigorously expanding trade with neighboring countries, and using border trade as its market target to attract foreign funds and technology with which to develop its export industries, is going to be an extremely important way for the inland border zone to gain development advantages.

2. Establishing a number of free border trade zones in all inland border provinces and autonomous regions, based on their respective geographic conditions and infrastructures for opening up to the outside world, would be a decisive way to expand border trade. In such free border trade zones, we should abolish both the restrictions on the type of ownership of the units that can take part in border trade as well as those on regional jurisdiction, eliminate tariffs and import-export licenses for ordinary commodities, and rescind the limitations on the size of single transactions among border-area inhabitants. Until official foreign economic and trade relations have been fully restored with certain neighboring countries, the development of freer nongovernmental border trade by inland border provinces and autonomous regions is not only possible, but will also open the way for deepening bilateral economic and trade relations.

3. Expanding the inland border zone's foreign trade will be bound to spur the growth of its export-manufacturing industry. In this process, vigorous steps should be taken to attract outside funds and technology with which to develop the export-manufacturing industry, as a partial replacement for entrepot trade in coastal and interior export products. Thus, qualified places could elevate their free trade zones to "free trade and export-manufacturing zones," and draw on the experience of the Tianjin, Xiamen, and Pudong EDZs and even Yangpu in developing tracts of land. As border trade

grows to a certain stage of development, deeper economic and technical cooperation between the inland border zone and neighboring countries will also evolve.

4. From a long-range perspective, opening up foreign economic exchange in the inland border zone will effectively speed up economic development, raise living standards and thus lay a solid foundation for unity and political stability in the inland border zone. Even from an immediate perspective, as most of the countries adjacent to China's inland border zone have similar levels of economic development and living standards as China, and even distinctly lower than China's in some cases, opening up free border trade will not lead to serious instability. We should not refrain from opening up free border trade for fear of the slight risk to particular areas.

5. In an article entitled "Promoting Full Economic Cooperation Between China's Coastal Zone and East Asia,"¹³ we suggested that all of China's coastal provinces should develop closer economic links with their East Asian neighbors in line with their respective natural endowments and relative advantages. In a certain sense, this current article's line of thought is a development of that suggestion. Once the inland border zone breaks free from its closed pattern of development, China's regional foreign economic cooperation will develop into a new phase of expansion in all directions. Fully opening up the coastal and inland border zones will not only stimulate the development of China's 10 coastal provinces and municipalities and eight inland border provinces and autonomous regions, but will also create the key conditions for the development of foreign economic cooperation by our interior provinces and autonomous regions.

6. While making significant advances in border trade with neighboring countries, foreign trade along China's northern border zone should also be further expanded into all of West Asia and Eastern Europe, and that along our southern border zone should also continue to be expanded into the vast South Asian zone. In this respect, increasing border trade is only the first step in a foreign economic development strategy for China's inland border zone.

Footnotes:

1. The data on 1979 GNP for all regions is estimated according to the interrelationship between national income and GNP.

2. Export dependence is defined as export turnover divided by GNP, and import dependence as import turnover divided by GNP.

3. See *China Foreign Economic Relations and Trade Statistical Yearbook 1989*.

4. Border trade includes local border trade carried out by foreign economic relations and trade units at the border province (autonomous region) level, minor trade carried out by foreign economic relations and trade units below

the provincial (autonomous regional) level, and trade among border-area inhabitants.

5. See *Heilongjiang Statistical Yearbook (1988)*, *Inner Mongolia Statistical Yearbook (1988)*, and *Guangxi Statistical Yearbook (1988)*.

6. (See *China Foreign Economic Relations and Trade Statistical Yearbook (1989)*).

7. See "A Review of and Prospects for Border Trade Between Heilongjiang and the Soviet Union" by Song Kui [1345 7608] in GUOJI MAOYI WENTI [INTERNATIONAL TRADE ISSUES] No 1, 1990.)

8. See "Guangxi Economic Studies Center" in GUANGXI JINGJI YANJIU [GUANGXI ECONOMIC RESEARCH] No 7, 1989.)

9. Ibid.

10. See *Guangxi Statistical Yearbook (1989)*

11. These were mostly indirect exports to Vietnam through other countries or regions, and do not include trade among border-area inhabitants.

12. In this article, Central Asia refers to Xinjiang's five neighboring Soviet republics and Western Mongolia, and Western Asia refers to Pakistan, India, and the Persian Gulf oil-exporting countries.

13. This article's English text was a paper presented at the "International Research Conference on the Industry, Commerce, and Economy of the Asian-Pacific Region" (Hawaii, January 1990), and its Chinese text was published in GUANLI SHIJIE No 6, 1989.

Improving Contract System in Foreign Trade Enterprises

91CE0568A Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 4, 30 Apr 91 pp 21-22, 9

[Article by Chen Xiaoqian (7115 2556 6197) and Zhu Handong (2612 3352 2639): "Thoughts on Improving the Contract Management Responsibility System Within Foreign Trade Enterprises"]

[Text] Although a certain amount of contracting has been being practiced within foreign trade enterprises in recent years, the general situation is still that planned targets are rigid at the beginning of the year but flexible by year's end, contracts are rigid but fulfillment is flexible, and rewards are rigid but penalties are flexible. While foreign trade enterprises contract with local governments basic targets, such as export plans, loss quotas, and currency exchange costs, and then break them down to all business departments, they generally emphasize only the assignment of planned task targets, while being unable to guarantee corresponding supplies of funds and supplementary raw materials. Nor do they assign rigid targets for things, such as loss quotas, currency exchange

costs, exchange collection rates, fund possession, inventories, or circulation costs. There are no clear provisions for business administration contractors in the areas of duties, rights, or interests, and contractors do not make specific demands on business personnel, which makes it impossible to arouse initiative within enterprises, leaves management in chaos, and causes poor economic efficiency. These phenomena within foreign trade enterprises are putting increasingly obvious limitations on their self-development, and have become a key current issue that urgently needs to be resolved.

We think that the key to further improving the contract management responsibility system within foreign trade enterprises will be to break the business accounting unit down to the smallest possible accounting unit, and break contracts down to the level of the accounting unit. Competition, risk, and legal factors must be introduced to contracting within foreign trade enterprises. The setting of contract items and targets, as well as contractors' duties, rights, and interests, should be clearly stipulated. We will try to discuss in this article certain superficial views in this area.

I. Banks Should Be Set Up Within Foreign Trade Enterprises, With Bank Accounts Being Established, and Independent Accounting and Assumption of Sole Responsibility for Profits or Losses Being Practiced, Within All Business Departments.

The smallest possible accounting unit within a foreign trade enterprise is generally the business department. As the various business department contractors within foreign trade enterprises do not have legal status, they should generally not open independent foreign trade bank accounts, but rather should practice a financial system of only internal banking management.

After banks are set up within foreign trade enterprises, the foreign trade bank accounts set up by finance departments should be regarded as transfer accounts for government allocation for losses, public financial drawback, business dealing revenue and expenditure, bank loans and interest, and enterprise wages, welfare funds, and various circulation costs. Enterprise accounts should be used for operations, such as transferring funds to, collecting expenses from, and handling foreign trade business accounting for all contracting business departments in a planned way, according to set proportions, by stages and in groups.

The bank accounts set up by all business departments within enterprises should be responsible for business revenue and expenditure within departments, such as company fund allocation (contracted funds, loss supplements, and drawbacks), export exchange collections, domestic sales income and procurement fund expenditures, and expense payments to the state. The responsibility should extend to special use of special funds by all business departments, in order to prevent misappropriation. Idle or excess funds within departments could be

assigned for compensated use by other departments upon consultation with the enterprise finance department.

All accounts should remain under the centralized control of finance departments. While full-time accountants who are subordinate to finance departments and subject to control and restraint by finance regulations should be installed by all business departments, they should be responsible to and directly led by business department contractors. Qualified enterprises could install a full-time accountant in each department, or one with joint responsibility for several departments.

II. The System for Setting Targets Within Contracts

As independent accounting of financial affairs is the first step in contracting within foreign trade enterprises, particular contract targets should be set as follows:

1. Contract targets: (A) Export plans: This is the primary and most important foreign trade enterprise target. (B) Loss quotas: After foreign trade enterprises contract export plans with the state, the state allows them to sustain a certain amount of losses, but sets a loss quota, which limits the extent of such losses. Foreign trade enterprises should break this loss quota target down to specific commodities. (C) Currency exchange cost: This is the amount of RMB needed per \$1 of exports. It stands in direct proportion to losses, i.e., the higher the currency exchange cost the greater the loss, and vice versa. It is a key indicator of foreign trade enterprise economic efficiency. (D) Exchange collection rate: The exchange collection rate reflects net exchange collection per \$100 of exports. As exchange collection is a key source of foreign trade enterprise circulating funds, government loss allocations and enterprise fund retention both depend on net exchange collection. Secure and timely exchange collection is a matter of prime importance for foreign trade enterprises. (E) State foreign exchange payment quotas: The state sets the state foreign exchange payment quota as a fixed percentage of a foreign trade enterprise's contract base, which must be paid in full monthly despite the amount or existence of exchange earnings. In order to enhance their regulation and control capability, all local governments also control a fixed percentage of foreign exchange, by setting state foreign exchange payment quotas for all of their subordinate foreign trade enterprises. As exchange earnings of foreign trade enterprises depend on all commodity sectors, contracting within foreign trade enterprises must take this target into consideration. (F) Inventories: As stocks of merchandise are foreign trade enterprise export guarantees, especially for traditional products, long-range merchandise, and year-in-year-out management, reasonable inventories are essential. (G) Fund possession and turnover frequency: foreign trade enterprise fund possession reflects mostly funds for reserve commodities, supplementary raw materials, and commodities that are en route or under manufacture. Circulating funds are used mainly for operating costs, such as cash procurement, cash exporting, additional labor costs, and travelling

expenses. Under the current conditions of tight state money and a shortage of credit funds, the best option for easing fund shortages is to speed up fund turnover and use every sum of money well and briskly. H) All expenses (including direct and indirect ones) should be set in proportion to export turnover, in order to do away with the phenomenon of expense averaging.

2. The setting of all targets: A summary of the experiences gained and lessons learned from enterprise contracting in recent years shows that foreign trade enterprises could try the "method of factor analysis" to set their contract targets. That is, they should conscientiously analyze and predict all relevant factors in contract targets, investigate and study the history, status quo, and prospects for domestic and international markets focused on commodities, find the favorable and unfavorable factors, and determine their impact on contract targets. Moreover, they should analyze current domestic foreign trade policies, and master all of the latest trade management laws and regulations. They should consider their real achievements in the preceding year or previous years, rationalize them with the averages for the same trade, then reset all contract target bases, and finally hold "consultations" on this bases with foreign trade enterprise corporate representatives, those in charge of the relevant business departments, and contractors and, through full discussion and demonstration, set feasible contract bases.

III. Contractors' Duties, Rights, and Interests

The selection of contractors within foreign trade enterprises should follow the principles of "openness, equality, democracy, and excellence," and introduce competitive forces, instead of having the decisions made at the higher level, setting limits, choosing by seniority, or making distinctions between those within or outside of the trade. Enterprises should set up appraisal groups to make comprehensive evaluations of contractors' characters, capabilities, diligence, and achievements, in order to select and engage the best. Moreover, they should introduce risk mechanisms, and use property venture guarantees to put real pressure on contractors. After contractors are selected, their contract management contracts should be notarized by notarization agencies and subjected to legal restraints, in order to emphasize the importance of contracts and ensure their fulfillment.

As foreign trade enterprises involve foreign affairs or foreign nationals, a wide range of matters, many links, and complex economic activities, contractors' duties, rights, and interests must be set forth clearly.

Duties: 1) Contractors must strictly adhere to and implement all national economic policies, laws, and regulations, as well as relevant trade management rules, and subject themselves to inspection and supervision by departments, such as finance, taxation, pricing, and auditing. 2) They must do all they can to fulfill all contract targets, bring their personal initiative into full

play, enhance their management and administration, and improve their economic efficiency. They must establish sound internal management regulations. 3) At regular business meetings with directors, they must report their fulfillment of plans, all contract target fulfillment, and management difficulties and problems. They must submit original certificates to their financial planning departments, fill out relevant report forms accurately, introduce and popularize successful methods, and observe enterprise labor discipline rules and regulations.

Rights: 1) Business management rights: Based on national price limitations and business needs, contractors can sign goods supply and export contracts on behalf of their companies, and choose customers with whom to make transactions. They enjoy the rights of domestic procurement; foreign negotiation, price quotation, and contract signing; and going abroad to promote sales. 2) Fund use rights: Based on business needs and within the allowable limits of policy and financial regulations, contractors can control and use contract management and self-raised funds for expenditures, such as procurement, transportation and incidental expenses, commissions, insurance premiums, and travelling expenses. 3) Personnel rights: Contractors can hire at their own initiative, in order to optimize their work forces. 4) Reward and penalty rights: Contractors can redistribute enterprise bonuses, in order to reward diligence and penalize indolence, and return incompetent personnel to enterprise personnel departments. 5) The right to demand coordination among all business departments—contractors can directly demand that all enterprise storage and transportation departments promptly prepare bills, make customs declarations, and submit freight reports. They can demand that finance departments handle on schedule procedures, such as payments and exchange collections. They can demand that planning departments honor on schedule and in correct amounts retained foreign exchange and exchange earnings bonuses. They can demand that market research departments provide regular domestic and international market information and the latest national policy laws and regulations on trade management. 6) Other rights, such as the right to distribute rewards for sales of the means of production and subsistence.

1) After contract duties are fulfilled, rewards will be given based on fulfillment of contract management contracts. Those who overfulfill export plans without exceeding loss quotas should enjoy government-rendered cash awards. 2) Economic efficiency will be linked to contractors' personal economic interests, with no limitations on bonuses and more pay for better work. 3) Basic wages will be subject to year-end fluctuation. The year-end wages of those who fulfill their duties well will be raised one grade, while the year-end wages of those who do not fulfill their duties will be reduced one or two grades and their venture guarantees will be put into company accounts. 4) Enterprises will give material and spiritual awards to contractors who work conscientiously and responsibly to develop new products or make

outstanding contributions, and such honors will be recorded in personal files. 5) Those who cause direct or indirect economic losses due to job irresponsibility will be penalized according to the seriousness of their cases, and judicial organs will investigate and affix criminal responsibility for those who commit economic crimes.

Suggestions for Developing Sino-Singapore Trade
9ICE0565A Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 4, 30 Apr 91 pp 30-34

[Article by Cao Yunhua (2580 0061 5478), Southeast Asia Research Institute, Jinan University: "Review of Sino-Singapore Economic and Trade Relations, Their Prospects and Possible Promotion"]

[Excerpt] [passage omitted] 3. Some Suggestions for the Improvement of Sino-Singapore Economic and Trade Relations

1) Strengthening Political Contacts Between the Leaders of China and Singapore

This is a fundamental prerequisite for the future development of economic and trade relations between the two countries. Due to a series of factors, China and Singapore did not, for a long time, establish regular diplomatic relations. However, when the leaders of both countries adopted a more pragmatic attitude and observed realistic principles, and were thus able to settle various aspects of their relationship in a flexible manner, they achieved the smooth development of their political, economic, trade, and cultural relations. Most recently, China and Singapore have established official diplomatic relations, thereby "regularizing" already existing excellent relations. The new generation of leaders in Singapore, such as Goh Chok Tong and Lee Hsien Loong are leaders of a pragmatic bent. After his two visits to China in 1980 and 1987, Goh Chok Tong again visited China in 1990 in the company of Prime Minister Lee Kuan Yew, which indicated the extent of the significance which he attaches to China. Not long ago, when Prime Minister Li Peng visited Singapore, Goh Chok Tong gave to understand that he wished for intensified contacts between the new generation of leaders in China and Singapore. When Lee Hsien Loong visited Japan in April of this year, he said: "The day will come when China will become the major trading partner of many countries in the Asia-Pacific region. Singapore will therefore continue to maintain its economic and trade contacts with China." It is my opinion that although Singapore is a small country, we must not overlook its strategic position, its enormous economic achievements during the last 30 years, and its close links with the developed countries of the West. Singapore must occupy an important position in China's foreign relations. For the further development of Sino-Singapore relations, it is imperative that the relations between the leaders of these two countries be further strengthened and mutual understanding be deepened.

2) Absorbing More Singapore Capital and Developing Diverse Sources of Foreign Investments

According to statistics, China has so far approved the establishment of 20,278 foreign-invested firms and agreed to the absorption of somewhat over \$32.1 billion of foreign capital, of which \$14.1 billion have actually been invested. According to origins, capital from the Hong Kong-Macao region accounted for over 70 percent of foreign investments in China. Investments in several special economic zones has also mainly come from Hong Kong and Macao. Up to 1988, foreign investments in Xiamen, Shenzhen, and Shantou were funded by capital from Hong Kong and Macao to 47.6, 68, and 91 percent, respectively.

The above-stated figure reveal that sources of foreign investments in China have not yet become truly diversified, as capital investments from Hong Kong and Macao are in a monopolistic position. Positive and negative experiences in many countries have proven that a singular source of foreign capital can easily lead to monopolies and controls, that are felt unbearable by the host country, also adversely affecting the development of foreign trade by the host country. On the other hand, diversity of foreign capital sources can create a kind of competitive situation between the various investors, a situation that can be profitably exploited by the host country, and thereby can also prevent monopolies and controls by the investing countries in the host country. Furthermore, diversity in foreign investment sources can also lead to a structural diversity of foreign trade, which will then be developed through a multiplicity of channels. It is therefore necessary for China to exert efforts toward a diversification of its sources of foreign investments. Judging by the present relations between China and the various Western countries, it appears that in the near future there will be no large influx of capital from the developed countries, while there is still a large potential in Singapore that could be tapped. Although Singapore now ranks fourth among large investors in China, the proportion of its investments in the total foreign investments in China is not high. It stood at only 1.9 percent during the 1979-1988 period, and in 1988 Singapore capital accounted for only 1.27 percent of actually utilized foreign capital in China. Singapore began in the 1970's to export capital, in the middle years of the 1980's, in order to accelerate the upgrading of its products, the Singapore Government adopted various measures to encourage its local businessmen to invest abroad, in order to achieve its objective of transferring labor-intensive production abroad, and to concentrate its strength on the development of high-tech and high-value industries. Most prominent destinations of Singapore capital are presently Johor (Malaysia) and Batam Island (Indonesia) in the "Singapore-Johor-Batam golden triangle." Compared with China, the two mentioned areas offer more favorable climatic, geographic, and population conditions; they therefore are China's main competitors in attracting Singapore capital. In order for China to be in the position of attracting more

Singapore capital, it is necessary to effect a comprehensive improvement of its investment climate; if China were to merely do no more than it has in the last few years, it would certainly miss its chance.

Judging by the direction of Singapore's capital investments in recent years to various areas of China, Singapore's businessmen have already shifted their preference for the coastal areas of South and East China toward investments in interior China. For instance, looking at the distribution of the 24 enterprises approved by China as Sino-Singapore joint ventures, we see that all except one for Shenzhen in Guangdong, one for Quanzhou in Fujian Province, and two for Shanghai, the rest are all distributed among the various provinces, municipalities, and counties of the interior. Furthermore, we should consider the itineraries of the three newly organized study groups of the Singapore Trade Development Bureau: the first went to Shandong Province, the second went to the three provinces of Northeast China, and the third went to Sichuan Province. This indicates the great interest that Singapore businessmen have begun to show for China's interior. Following are the main factors that will explain the shift in investment interest by Singapore's business community from the coastal regions of south and east China to the interior of China:

1. Hong Kong and Macao businessmen had been quicker, and gained a firm footing in the coastal regions of south and east China (particular due to the close neighborly relations between Guangdong and Hong Kong and Macao), so that Singapore would have found it difficult to compete there with Hong Kong and Macao.
2. During 10-odd years of strenuous effort, the coastal regions of Guangdong, Fujian, etc. have already reached a comparatively high level of economic development, and land use charges and cost of labor are much higher there than in the interior.
3. Although the interior has its communication and transportation difficulties, the territory of the interior is vast, produces an abundance of products, and its land charges and labor costs are extremely low, elements which make it highly attractive to Singapore businessmen. For instance, the 10-odd factories set up in China by the Mei-Ya Group, the largest Singapore investor in China, are all distributed in the interior, in Guizhou, Yunnan, Liaoning, and other such provinces. In 1990, the said group had negotiated for the establishment of plastic packaging plants in Chengdu, Chongqing, and other such places.

The fact that Singapore's capital flow is changing its direction toward China's interior reveals to us above all that we must adroitly guide our action according to the circumstances, and formulate an overall plan for the importation of foreign investments. This plan must effectively guide the flow of foreign investments, differentiating different levels, in a purposefully, planned, and systematic way, according to the present disparity in economic development levels such as between the

coastal regions and the interior. Because of their comparatively high level of economic development, the coastal regions should, as much as possible, attract more investments from Western countries and from transnational corporation with the technologically somewhat higher developed "four little dragons" of Asia. Large- and medium-size cities in the interior with comparatively better developed infrastructures may attract investments from enterprises of a general level of development. Small cities and county seats in the interior and the remote area of the northwest and southwest may attract investments from medium and small enterprises of the "four little dragons" of Asia—enterprises that are now being selectively eliminated there—in order to alleviate the interior's pressing unemployment problems and to provide funds for its further industrialization. I believe this method of attracting foreign capital, graded according to regional conditions, is in conformity with the present multilevel character of the development of our productive forces, and would also definitely be effective and feasible.

3) Active Development of Petroleum Exports to Singapore

Singapore ranks third in the world as oil refining center. The oil refining industry is well developed; it has a capacity of 1 million barrels per day. The product value produced by the said industry in 1989 accounted for 14.62 percent of the total industrial output value. However, all of Singapore's oil is imported. In 1989 Singapore imported 36.78 million tons, an increase of about 16 percent over the 31.66 million tons imported in 1987. In the 1960's all of Singapore's oil was imported from the Middle East, in the 1970's this ratio dropped to about 80 percent, and dropped again in the 1980's to around 70 percent. The two oil crises in the 1970's forced Singapore to diversify its sources of oil supplies. In the 1980's, China began to export oil to Singapore: in 1981 China exported 286,000 tons, in 1984 these exports increased to 3.085 million tons, and in 1989 again increased to 3.531 million tons. During the period from January to May of 1990, these exports reached 1.614 million tons. Recently, with the sudden change in the situation at the Persian Gulf, the Singapore Government tried to alleviate the detrimental effect of the Gulf crisis on Singapore's economy by, on the one hand, adopting a series of internal economy measures, and, on the other, seeking to buy more oil from neighboring Asian countries. Presently, Indonesia and Malaysia intend to export more of their oil to Singapore. China too should exploit this opportunity to further develop its oil trade with Singapore.

4) Large-Scale Importation of Skilled Professionals From Singapore

In its 30 years of exploration and struggle for industrialization and modernization, Singapore has achieved important successes and accumulated many valuable experiences. It has at the same time nurtured many skilled professionals. Singapore has an abundance of skilled professionals and experiences, especially in the

development of foreign trade, strengthening infrastructure, urban restructuring and construction, construction of public housing, development of banking and tourism and of commercial service industries. It is these experiences, as well as the skilled professionals, that China needs. According to rough Singapore statistics, there are approximately 800 Singapore nationals now working in China. They are mainly engaged as managers of branches of Singapore banks, managing representatives of European and American transnational corporations, managers of hotels and restaurants, employees in Sino-Singapore joint venture enterprises, or personnel working for engineering projects. Zhu Ying [2612 5391], chief representative in the Beijing office of the Trade Development Bureau of Hong Kong, opined that there are three advantages to employing Singapore nationals in China: First, they are generally fluent in English and Chinese, thus ideal as "middlemen" between European and American transnational corporations and Chinese enterprises. Second, the average salary of a Singaporean in a managerial or staff position is generally lower than that of a European, American, or a person from Hong Kong, though their quality is not necessarily lower. Third, a Singapore worker is secure in his nationality, not like someone from Hong Kong who will try to obtain a foreign passport and abscond to the West. This assessment, in my opinion, is very accurate, and for China it would not be amiss to attract more, well-qualified Singapore nationals to come here to work, and give full play to their professional skills while promoting the development of China's tertiary industries. In fact, one of the elements of Singapore's success is their reliance on the large-scale importation of foreign talents; they were welcomed with open arms, regardless of their origins, as long as they were useful.

5) Fully Bring Into Play Singapore's Role as "Door" and "Window"

Presently, China's main door and window for contacts with the Western developed countries is the Hong Kong-Macao region. We really need to open some more doors and windows, and Singapore is exceptionally for this. Singapore has an advantageous geographic location, has well-developed communication facilities and a modernized information network, a very modern harbor with a long history, is an international monetary center, a center of international exhibitions, a center for international conferences, and a center of medical services and recuperation. At present, more and more European and American transnational corporations make Singapore their business center for the Asia-Pacific region. In brief, Singapore possesses all the various prerequisites to serve as China's door and window to the world, and these conditions are not inferior to those of Hong Kong and Macao. If China were to open some more doors and windows in the manner of Singapore, it would bring a thousand benefits and no disadvantages. It is precisely as Fu Chunan [0265 2504 1344], a Singapore businessman, had pointed out: Singapore is an important channel for industrial countries to transfer technologies to China,

capable of transferring service technologies, managerial skills, advisory services, hotel and restaurant management, and marketing techniques. As various large transnational corporations are making Singapore their business center for the Asia-Pacific region, Singapore is gradually becoming a center for purchases, supplies, packaging, and other such business activities. Regarding European and American companies that are not familiar with the Chinese market, Singapore can also serve as a large door for entering China. In other words, Singapore is suited to become a bases for trade with China and an important entrepot for such trade.

Role of Entrepot Trade in Domestic Economic Development

91CE0613A Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 5, 30 May 91 pp 8-11, 37

[Article by Shi Jianfu (2457 0256 1133): "Role of Entrepot Trade in Domestic Economic Development"]

[Text] Not long ago the State Council approved the establishment of China's first special economic zone of a free trade nature in Pudong Waigaoqiao in Shanghai, which will concentrate on developing entrepot trade and international trade. Since entrepot trade is a new economic activity in China, it is important that we study it without delay. This article proposes to take a preliminary look at the role of entrepot trade in domestic economic development by classifying the different forms of entrepot trade, using Hong Kong as a case study.

1. The Concept of Entrepot Trade

Entrepot trade is also known as "transit trade" and "re-export." Its classic definition is: "The buying and selling of imports and exports in international trade. Such transactions do not take place directly between the producing nation and the consuming nation but through a third nation. For the producing nation, entrepot trade constitutes indirect exports; for the consuming nation, indirect imports. In either case, it is indirect trade. For the transit nation, it is entrepot trade, or re-exports, part of its transit trade."¹ In actual international commercial intercourse, though, the concept of entrepot trade has become blurred mainly because different nations and regions have classified the same economic phenomenon differently from different angles in order to advance their own interests. Specifically:

1) The extent of processing and value-adding a commodity undergoes in the place of transshipment.

As some people see it, a commodity normally should not undergo any processing in the entrepot, at most some packaging, sorting, selecting, arranging, and other minor commercial simple processing. Otherwise, it cannot be considered entrepot trade. But others think just the opposite, arguing that commodities in entrepot trade may be processed in the entrepot, provided most raw materials, parts, and components used in processing

come from overseas and that the finished products are exported. The degree of value-adding and processing may be artificially determined.

2) The direction of movement of commodities.

Some people hold the view that "even if a commodity is directly shipped from the producing nation to the consuming nation, it still falls within the scope of entrepot trade provided there is no direct trading transaction between the two nations and the delivery is effected by entrepot traders from a third nation dealing separately with the producing nation and consuming nation."² Such trade, however, comes under "intermediate trade" in the dictionary which gives us our definition in Footnote 1 above.

3) The different positions of the entrepot and the nation in which the entrepot is located.

If the place of transshipment is a nation or region in the form of a city such as Hong Kong or Singapore, then it is also a country of transshipment. In this case, their positions are the same. However, when the nation in question is quite large, then their standpoints do not necessarily agree. Take Shanghai, for instance. As long as the merchandise is shipped through the port of Shanghai and as long as Shanghai is not the final destination, then such transactions can be considered entrepot trade, including trade between the interior and a foreign nation. For the nation as a whole, however, this can only be regarded as regular imports and exports.

It is precisely because of these reasons that this article refers to as "processing entrepot trade" those transactions in international trade where a commodity is processed before being transshipped overseas, as "direct entrepot trade" those transactions in international trade where a commodity is directly delivered through businessmen in the entrepot trade acting as an intermediary, and as "internal entrepot trade" for a particular port those transactions in the import and export of a nation.

2. The Forms and Classification of Entrepot Trade

Entrepot trade requires two preconditions on the part of the nation of transshipment. One, natural conditions, which means that the port of the nation of transshipment (place of transshipment) must be geographically superior, being located at an international communications hub or along leading international route. Two, man-made conditions. The nation of transshipment must adopt a preferential tariff policy toward the place of transshipment to make it a free trade zone or tax-protected warehouse, for instance, in order to keep the transit costs acceptably low to both the buyer and the seller.

Entrepot trade comes in all forms and shapes. But whatever the variation, it must comply with a basic principle: mutual benefit. In other words, all parties to the transaction must benefit from it to some extent. Among possible participants in entrepot trade are the

initial seller of the commodity, its final purchaser, entrepot traders, the entrepot (place of transshipment,) and providers of assorted auxiliary services in the entrepot (warehousing, unloading, and transportation.)

Diagram 1 indicates changes in the interests of the various participants in entrepot trade compared to direct trade, where buyer and seller deal with each other directly:

Diagram 1—Changes in the Interests of Participants in Entrepot Trade (when Compared to the Interests of Buyer and Seller in Direct Trade)

Agent	Profits From Trade	Income from Warehousing, Transportation, Other	Income From Tax, Rent, Other	Avoidance of Economic Risk	Success
Rate of Trade					
Seller	-	0	0	+	+
Buyer	-	0	0	+	+
Entrepot trader	+	0	0	-	+
Entrepot	0	0	+	0	0
Auxiliary Businesses	0	+	-	0	0

Key: (+) participant profits from the transaction; (-) participant suffers a loss from the transaction; (0) participant has nothing to do with transaction

In direct trade between the buyer and seller, we know, there is certainly one less middleman to siphon off the profits because the entrepot trader will never perform a service for free. This means that the entrepot trader must perform a specific function to make the buyer and seller willing to part with a portion of their profits in favor of the entrepot trader. How effectively the function is carried out has a direct impact on the profitability of entrepot trade. This is explained below as we examine the different forms of entrepot trade.

Entrepot trade can be divided into strict entrepot trade and processing entrepot trade depending on whether or not the commodity is processed (excluding simple processing of a commercial nature) in the entrepot. Strict entrepot trade, in turn, can be divided into natural entrepot trade and risky entrepot trade depending on the amount of risk posed to the entrepot trader. Different forms of entrepot trade have varying demands on the entrepot, as explained below:

1) Natural entrepot trade

Here the entrepot trader has established a stable long-term relationship of trade and cooperation with buyer and seller. The seller is capable of supplying goods long term while the buyer purchases them long term. For the former, the entrepot trader is a long-term buyer. For the latter, he is a dependable seller. Alternatively, the buyer and seller may on their own sell or buy merchandise in the entrepot. This kind of entrepot trade rests on a solid foundation and is risk-free. It requires that the entrepot trader perform the following roles: 1) as a window on information; 2) as an internationally recognized "exhibition and sale base," 3) as an economic and political intermediary between certain nations and regions; 4) as a way of getting around the tariff barriers and other protectionist policies imposed by some countries. We can thus see that the entrepot trader is expected to meet exacting demands. Sometimes an entrepot is endowed by

international economic relations in such a unique way that it cannot be replaced by other nations. As a window on information, the entrepot must have access to a wealth of information relating to the supply and demand of the commodities in question, their prices, and the network of customers and manufacturers. The supplier and buyer either lack such information or cannot get hold of it as quickly and accurately as the entrepot. Otherwise, the supplier and buyer would bypass the entrepot and directly deal with each other. It takes an entrepot a long time to cultivate its reputation as an international marketplace, as an exhibition and sale base, just as it takes it years to develop its reputation as a window on information. On the one hand, it must be able to provide a much broader range of commodities than other places. On the other hand, it must be good at absorbing the commodities shipped from elsewhere. With its ability to handle an enormous flow of commodities in both directions, such an entrepot would be highly attractive to both buyers and sellers. Drawn by its attractiveness, businessmen flock to it in large numbers, reinforcing its capacity. Only a handful of special places can function as political and economic middlemen. Hong Kong, for instance, has been able to play its role as a political and economic intermediary only because the mainland and Taiwan cannot directly do business with each other. As for a creative way of avoiding paying taxes, that is a role even fewer countries can fulfil. (For instance, merchandise may be shipped to the entrepot where it undergoes minor processing before being reexported to a third nation as the products of the entrepot. This way the nation of origin succeeds in bypassing the discriminatory tariffs imposed by the third nation.) Thus natural entrepot trade is not shaped by the subjective wishes of the entrepot but is the outcome of international external conditions, political, economic, historical, and geographical. All that an entrepot can do is to take advantage of the circumstances.

2) Risky entrepot trade

These are the common scenarios: 1) The entrepot trader projects market trends and decides to buy in commodities when prices are low and then sells them when prices are high, thus making a profit by exploiting the time difference; 2) the entrepot trader buys in a large quantity of merchandise and then sells it, making a profit as an international wholesaler. What he earns is the price difference between wholesale and retail; 3) the entrepot trader first enters into a sales contract or futures contract even though he has no merchandise on hand and then looks for supplies, using his connections with customers and information channels.

As far as the entrepot is concerned, the advantage of risky entrepot trade is that there is little in the way of requirements. Any businessman or port can get into the act provided there is something resembling a free trade policy. However, it would be a highly risky proposition for them. Whether they secure goods first and then look for a buyer or vice versa, it will not be easy especially when they must buy cheap and sell dear. The idea is to exploit the time difference, but if the commodity prices do not rise or do not rise as fast as projected, the trader will be stuck with overstocked goods and suffer losses, his profits falling short of interest payments on bank loans and his customers lining up to demand compensation.

From Table 1, we can see that when the profit from trade goes down, the buyer and seller also reduce their risk and boost their trade success rate. The entrepot trader profits from handling goods in transit but runs a risk at the same time. On the other hand, if the external conditions are such that he can go in for natural entrepot trade, then the issue of risk will not arise. The entrepot stands to profit from taxes, land use fees, and rents; it is a no-lose situation. The auxiliary businesses must pay taxes, rents, and other expenses, but in the case of the warehousing and transportation industries, their incomes will certainly exceed their expenses. So for them too entrepot trade is risk-free.

3) Processing entrepot trade

Processing in the entrepot adds value to a commodity. Thus the entrepot trader in this kind of entrepot trade profits not only from transshipment but also from processing. In fact the profits from processing and the subsequent value adding may account for most of the profits from the entire transaction. Processing entrepot trade requires ample low-cost labor in the entrepot so that commodity prices can be kept low, making it internationally competitive. In other aspects, processing entrepot trade is not as demanding as strict entrepot

trade. Needless to say, there is a limit to value-adding, otherwise it may exceed the scope of entrepot trade.

We can conclude from the above analysis that from the standpoint of the entrepot, entrepot trade is always profitable. At a minimum, it derives incomes from taxes and land use fees. Entrepot trade also generates indirect benefits for the entrepot by boosting its hotel, tourism, communications, and banking industries. If the entrepot also has a hand in the auxiliary industries, it derives incomes from warehousing and transportation as well. As for the entrepot trader, if it is equipped to engage in natural entrepot trade, it is sure to make a profit. Otherwise, he can go after risky entrepot trade. Backed by low-cost processing industries, he will find processing entrepot trade an attractive option.

There are other ways to classify entrepot trade such as the method of transportation. The merchandise may be shipped to and from the entrepot by sea or it may be shipped there by sea and then re-exported by land. But shipping merchandise by air or over land is significantly more expensive than sea-borne transportation. Thus apart from a handful of commodities where speedy delivery is of the essence, the bulk of entrepot trade is seaborne. In addition, entrepot trade can be classified according to the movement direction of the commodity or to the nation to which the entrepot trader belongs.

Thus far we have discussed at length the concept of entrepot trade as well as its forms, types, functions, and distribution of interests. Below we examine the impact of entrepot trade on domestic economic development by analyzing the growth of Hong Kong's entrepot trade.

3. Analysis of the Development of Hong Kong's Entrepot Trade

There are historical reasons for Hong Kong's development into the world's top entrepot. At the end of World War II, goods and materials from the mainland traveled through Hong Kong in large quantities, setting in motion the development of Hong Kong's entrepot trade. From the founding of the PRC to the end of the Cultural Revolution, with China scarcely open to the world, Hong Kong became China's window to the outside world and the transit center for merchandise originating in China as well as that destined for China. After China undertook reform and opened itself to the outside world, cities and ports along the Chinese coast assumed a much wider range of functions, siphoning off from Hong Kong some of its imports and exports operations. As a longstanding free port, however, Hong Kong still has some unique advantages in finance, communications, services, network of customers, and international reputation. Thus far, therefore, there is no city in the interior that can replace Hong Kong. And China remains the No 1 source of its entrepot trade, as demonstrated clearly in Table 1.³

Table 1—Major Markets for Hong Kong's Entrepot Trade in Percentage

Nation/region	1982	1983	1984	1985	1986	1987	1988
China	18.0	21.6	33.6	43.7	33.4	32.9	34.5
United States	12.7	14.3	14.5	14.0	18.3	17.8	18.0
Indonesia	10.4	6.9	2.8	2.2	2.0	1.4	1.1
Japan	5.8	5.6	5.5	5.2	5.4	5.3	6.3
Taiwan	6.0	6.1	5.8	4.1	4.8	5.3	5.1
South Korea	3.8	4.3	4.1	3.7	4.8	4.9	4.3
West Germany	1.8	1.4	1.3	1.5	2.2	3.0	3.1

As far as the objective environment is concerned, Hong Kong is naturally endowed with a superb geographical location, being situated at a major communications hub in the Asian and Pacific area, and an excellent deep-water port, but also boasts some man-made improvements that came about through years of development, such as a highly efficient port management system, advanced loading capability, a sophisticated banking system, access to information, and an army of people skilled in trade. However, the development of entrepot trade in Hong Kong has not been smooth sailing all the way, but is marked by ups and downs:

1) Between 1950 and 1951, entrepot trade was the main pillar of the Hong Kong economy. But while entrepot trade accounted for over 85 percent of the economy, its absolute value was tiny. This shows that Hong Kong with its simple economic structure was still very backward at the time and almost entirely dependent on entrepot trade for its survival. What it had then was natural entrepot trade.

2) Between 1952 and 1959, owing to the economic blockade imposed on China by capitalist nations, Hong Kong's entrepot trade plummeted, its absolute value reaching an all-time low.

3) Between 1960 and 1970, amid changes in the international economic situation, China's exports and imports increased steadily, fueling a slow expansion in the value of Hong Kong's entrepot trade. In relative terms, however, Hong Kong's entrepot trade was still headed downward. The reason is that after its entrepot trade was dealt a setback, Hong Kong went all out to develop local industries and transform its economic structure, thereby pulling its economy from the brink of collapse. When the crisis was over, the absolute value of its entrepot trade gradually rebounded. By then, however, local industries were growing even faster and the relative importance of entrepot trade continued to shrink.

4) After 1970, entrepot trade grew appreciably, its absolute value rising exponentially in the late 1980's. Entrepot trade also accounted for an increasing share of the Hong Kong economy but leveled off after reaching 50 to 60 percent. This shows that Hong Kong has already created an advanced banking, commercial, tourist, and

communications system, backed by a solid, export-oriented industrial sector. Its economy now highly diversified, no longer does Hong Kong rely simply on entrepot trade; the rapid development of entrepot trade is mere icing on the cake. Today Hong Kong has become one of the world's leading banking and economic centers.

4. Some Conclusions

We can draw the following conclusions from the above analysis:

1) Natural entrepot trade is a driving force in economic development in the entrepot. That is to say, even when the entrepot is backward in man-made conditions (finance, transportation, communications, and wharves) to begin with, natural entrepot trade can be the engine to drive their steady improvement.

2) Natural entrepot trade has its vulnerabilities. If the economy of the entrepot is totally dependent on it, it will be dealt a fatal blow as soon as the external conditions that support the natural entrepot trade are destroyed. For this reason, the entrepot must diversify its economy and keep the proportion of entrepot trade at an appropriate level. That is the only way to stabilize its economy overall.

3) The relations between natural entrepot trade and other industries in the entrepot both differ from and resemble those between risky entrepot trade and the other industries. This is the difference. Natural entrepot trade can serve as a driving force for the economy of the entrepot, expediting the development of a variety of industries including warehousing, banking, communications, transportation, and tourism. Not so with risky entrepot trade, which is preconditioned upon a measure of sophistication in those industries, otherwise entrepot trade will be even more risky. But natural entrepot trade and risky entrepot trade are similar in that they both stand to benefit from a continuous expansion of the above-mentioned industries.

4) Risky entrepot trade has an element of speculation and therefore cannot become the mainstay of the economy of the entrepot. To put it differently, other things being equal, a port that can only go in for risky entrepot trade is one cut below the port that can handle natural entrepot trade both absolutely and relatively in terms of scale.

5) Places lacking the conditions for natural entrepot trade but possessing low-cost labor may concentrate on processing entrepot trade and use it to spearhead the development of local industries, trade, and other sectors. When a solid foundation is in place, it may then engage in risky entrepot trade to a suitable extent on the side. That may be a more profitable proposition.

Footnotes

1. See entry under "entrepot trade" in *Dictionary of China's Foreign Economic Relations and Trade*, Shanghai Academy of Social Sciences.
2. See entry under "entrepot trade" in the *Dictionary of Foreign Economic Relations*, Chinese Foreign Economic Relations and Trade Press.
3. Based on successive issues of the *Economic Yearbook of Hong Kong*.

Safeguard Sino-U.S. Economic, Trade Ties HK1005041991 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 18, 6 May 91 p 26

[Article by Li Changjiu (2621 7022 0036): "Jointly Safeguard Development of Sino-U.S. Economic Relations, Trade"]

[Text] President Bush is to make a decision on whether or not the United States will continue to grant China the most-favored-nation [MFN] status and submit it to Congress for deliberations before early June [liu yue chu zhi qian 0362 2588 0443 0037 0467]. Thereupon, this issue has once again captured the attention of the entrepreneurs and consumers of both countries.

After China and the United States established diplomatic relations on 1 January 1979, the two governments signed a "Trade Relations Agreement Between the PRC and the United States of America" in Beijing on 7 July of the same year, providing that both sides grant each other MFN status.

The reciprocation of MFN status between the United States and China is an important factor in developing bilateral relations and, particularly, a cornerstone for developing bilateral economic relations and trade. The mutual granting of MFN status has greatly advanced the development of Sino-U.S. economic relations and trade. According to Chinese customs statistics, the volume of trade between China and the United States grew from U.S.\$2.45 billion in 1979 to U.S.\$11.78 billion, representing a fourfold increase. The United States has become China's third largest trading partner and U.S. businessmen constitute the biggest foreign investor in this country, the value of relevant trade agreements totaling U.S.\$4.36 billion. The fact that Sino-U.S. economic relations and trade have developed to the present level is a result of the joint efforts of the governments,

entrepreneurs, and people from various circles in both countries, who have surmounted whatever difficulties that have come in the way.

The development of Sino-U.S. economic relations and trade has not been smooth sailing. Last year, a number of U.S. congressmen drafted a bill for revoking China's MFN status. This year, some U.S. congressmen proposed the same bill in an attempt to terminate or conditionally retain China's MFN status. This attempt's success would have a serious [yan zhong 0917 6850] impact on Sino-U.S. relations, especially their economic relations and trade, causing a major retrogression in Sino-U.S. economic relations and trade. Neither the Chinese nor the American people would like to see this happen, as it would not only pose a disadvantage to China's import and export situation, but also impair [sun hai 2275 1364] American consumers' interests, undermine [ying xiang 1758 0742] the interests of U.S. investors in China, and jeopardize [ying xiang 1758 0742] Hong Kong's prosperity and stability.

There are about 800 U.S. firms in Hong Kong, and the U.S. businessmen's total investment there exceeds U.S.\$7 billion. Hong Kong is the United States' 14th biggest overseas market. Should the United States revoke China's MFN status, Hong Kong would be among the victims. Warren Williams, chairman of the American Chamber of Commerce in Hong Kong, pointed out that it would cause heavy losses to the United States. Warren Williams did not approve of the U.S. side's laying down additional conditions, such as those concerning the U.S. deficit in its trade with China, the competition of U.S. firms in China, and other relevant issues. He held that it is necessary to find a practical way to close such a rift through negotiations. Richard Williams, the U.S. Consul General in Hong Kong, recently said in New York that he endorses the United States renewing the MFN treatment to China.

Safeguarding and prolonging the reciprocation of MFN status between China and the United States requires efforts from both sides. As we have learned, the Chinese authorities concerned, who have noted the decrease of U.S. exports to China and the hope of the U.S. side to see an increase in its exports to China, are endeavoring to adopt measures to coordinate the development of bilateral economic relations and have recently sent, and will continue to send, purchasing delegations (or teams) to the United States. Chinese foreign trade officials have indicated that U.S. exports to China will grow so long as the United States is able to supply China's needs. On its part, China hopes the United States will loosen its restrictions on its technological transfer to China and increase the competitiveness of its commodities. It is generally believed that the U.S. Government and congressmen will certainly continue to consider the MFN treatment issue in light of the overall interests of developing Sino-U.S. relations and the friendship between the two peoples, and will not let the normal bilateral economic relations and trade be affected by the factors that have nothing to do with economy or trade.

Obviously, there is great potential and broad prospects for the development of Sino-U.S. economic relations and trade. In order to realize its 10-Year Program and Eighth Five-Year Plan, China needs to expand its economic and trade exchanges and technological cooperation with various countries including the United States, and import high technology, equipment, chemical fertilizers, grain, and raw materials. China now enjoys political and social stability and a steady economic growth. As China's economy moves forward and the Chinese people have an increasing purchasing power, the United States also needs such an enormous market, both current and latent, backed up by a population of 1.1 billion, and to import necessary commodities from China. History has proved, and will continue to prove, that it is in accord with the interests of both countries to ensure a steady development of bilateral economic relations and trade through joint efforts.

There is no rooted conflict of interests between China and the United States. So long as both sides strictly observe the principles laid down in the three Sino-U.S. joint communiques and safeguard the reciprocation of MFN treatment, the two countries' economic relations and trade will continue to develop and expand constantly.

Sino-Soviet Trade To Experience Wide Opportunities

*OW1105090991 Beijing XINHUA in English
0811 GMT 11 May 91*

[Text] Beijing, May 11 (XINHUA)—The traditional Sino-Soviet trade partnership will be further promoted along with improvement of relations between the two states, China's only news weekly, OUTLOOK [LIAOWANG] said in a coming issue to be circulated next Monday.

Sino-Soviet trade could be dated back to early 1950s, soon after the founding of the People's Republic of China, OUTLOOK's signed commentary said. It recalled that the first trade contract new China signed with foreign countries was with the Soviet Government.

In 1959, Sino-Soviet trade volume was logged at 2.1 billion U.S. dollars, accounting for 50 percent of China's foreign trade in the year.

The establishment and development of Sino-Soviet trade relations, with the Soviet offer of various loans and complete sets of equipment for varied undertakings, played a significant role in the revitalization of China's economy. It also strengthened China's defense capability in the 1950s, the commentary said.

Meanwhile, China's payment for the Soviet loans and equipment with various commodities and materials also helped the Soviet economy, the article said.

The economic cooperation and trade and mutual assistance promoted the construction of the two countries and enhanced the friendship of the two peoples.

The commentary stressed that Sino-Soviet trade channels had remained unblocked in the past 40 years despite the ups and downs of bilateral state ties.

Sino-Soviet trade relations entered a new era in the 1980's, thanks to China's open policy, and improvement of relations between the two countries.

In December 1984, the two sides signed agreements on economic, scientific and technological cooperation, and an agreement on establishing the cooperative committee for cooperation on economy, trade, science and technology, when Soviet First Deputy Chairman of the Council of Ministers Ivan Arkhipov visited China.

In July 1985, a Chinese vice premier visited the USSR and signed a long-term Sino-Soviet trade agreement for 1986-1990, and an agreement on economic, scientific and technological cooperation in building and improving China's industrial projects.

The above agreements provided a legal basis for developing bilateral trade, and paved the way for economic cooperation. The result could be seen in rapidly increasing trade volumes which reached 3.6 billion U.S. dollars in 1989, compared with the 1981 figure of 220 million U.S. dollars.

The means of Sino-Soviet trade had developed from a single barter trade form to multi-level and multi-channel cooperation, including regional indirect trade and border trade.

The inter-regional and border trade, whose volume totaled one billion U.S. dollars in 1990, not only formed a major sector of the bilateral trade partnership, but also boosted economic cooperation between enterprises of the two countries, expanded unofficial exchange and helped stabilize situations in the border areas, the article said.

The two countries also established a vice-premiership-level, mixed committee for economic, trade, scientific and technological cooperation in December 1984. This met alternatively each year in Moscow and Beijing, to exchange views and formulate specific measures on developing bilateral trade.

The sixth mixed committee meeting would be held this year to seek more trade means and economic cooperation.

The traditional friendship between the Chinese and Soviet people could also be reflected in trade cooperation, the magazine said.

It recalled that in the 1950s, the Soviet Union gave help in revitalizing the Chinese economy. This year, China offered a one billion Swiss francs (about 800 million U.S.

dollars) commodity loan to the USSR to help it with its present economic difficulties.

The loan represented the Chinese people's affection towards their Soviet neighbour, the news weekly said.

The prospects of Sino-Soviet trade could be highly assessed following the new trade agreement between the two countries signed in October 1990. This changed the traditional barter trade to trade paid directly by hard currencies.

Since then, international trade systems had been introduced including spot transaction, compensation trade, barter trade, counter purchase or parallel deals, joint venture establishment, commercial credit, etc.

All enterprises and companies enjoying foreign trade rights in both countries could now establish direct contacts, and make deals freely, under the principle of equality and mutual profits.

The variety and flexibility of the trade, along with increased trade partners, provided great opportunities and positive prospects for the Sino-Soviet trade, the magazine said.

Foreign Investment in Shanghai Rises 37 Percent in May

OW0506171691 Beijing XINHUA in English
1453 GMT 5 Jun 91

[Text] Shanghai, June 5 (XINHUA)—Shanghai absorbed 125 million U.S. dollars of foreign investment in May, representing a 37 percent increase over the previous four-month period.

According to the Shanghai Municipal Foreign Investment Commission, among the 40 foreign projects whose establishment was approved last month, seven are solely foreign-funded enterprises. However, the total contracted investment on these seven enterprises reaches 99.54 million U.S. dollars as against 25.38 million dollars, the total contracted investment on the other 33 enterprises, which are all Sino-foreign joint ventures.

The establishment of the seven new solely foreign-funded enterprises makes the number of the city's solely foreign-funded enterprises to 70 and the total investment of such kind of enterprises to 400 million U.S. dollars.

By the end of last month, the city had approved 1,057 foreign funded projects, 856 of which are Sino-foreign joint ventures, 131 are Sino-foreign cooperative projects and 70 are solely foreign-funded enterprises. These projects have introduced a total of 3.07 billion U.S. dollars of foreign funds to the city.

Cooperation Discussed With Yugoslavia's Markovic

OW0706033991 Beijing XINHUA in English
0107 GMT 7 Jun 91

[Text] Belgrade, June 6 (XINHUA)—Yugoslav Prime Minister Ante Markovic and visiting Chinese Minister of Foreign Economic Relations and Trade Li Lanqing exchanged views today on economic and trade cooperation between China and Yugoslavia.

In a cordial meeting with the Chinese Government's economic and trade delegation led by Li Lanqing in the evening, Markovic stressed that political relations between the two countries were good, and he hoped economic and trade ties would be further developed between them, on a balanced basis.

Li noted that his delegation came for expanding direct links between enterprises of the two countries, and the Chinese entrepreneurs accompanying him were capable and influential.

During the present visit alone, Li stressed, the volume of trade contracts between petrol and chemical-fertilizer industries of the two countries reached 130 million U.S. dollars. This showed the desire to positively develop cooperation between entrepreneurs of the two countries, Li said.

The Chinese delegation is expected to leave here for Warsaw tomorrow morning.

Chemical Corporation Borrows \$50 Million Through Hong Kong

HK0806043291 Beijing CHINA DAILY in English
8 Jun 91 p 2

[By staff reporter Qu Yingpu]

[Text] The China National Chemical Import and Export Corporation (Sinochem), one of the country's biggest foreign traders, has borrowed \$50 million on the international market through a syndicated loan largely co-ordinated in Hong Kong.

Liang Jian, a Sinochem official, said yesterday that the money was borrowed by Sinochem International Oil (Hong Kong), and is guaranteed by Sinochem Beijing.

He added that six international banks helped to finance the loan through their Hong Kong operations. They are Banque National de Paris, Canadian Imperial Bank of Commerce, Credit Lyonnais, Girozentrale Vienna, NMB Bank and West LB.

The loan is Sinochem's first in Hong Kong or anywhere in Asia. It was co-ordinated by Hong Kong-based Morgan Stanley Asia.

The money will be used as circulation capital for Sinochem International Oil (Hong Kong), he said adding that the loan is linked to an oil option. In return for the

preferential interest treatment on the loan, Sinochem has agreed to buy four million barrels of oil through Morgan Stanley Asia in three years time.

The loan, with a grace period of five years made amid an international fund shortage, is significant because it was syndicated during the war in the Middle East earlier this year and is the first time Sinochem has linked its borrowing with trade, said Liang.

Previously, Sinochem had received two loans from North America. One of the loans, worth \$80 million, was used to buy a U.S. chemical fertilizer plant, and the other, \$50 million, was used to buy a U.S. oil refinery plant.

Sinochem, which had a total foreign trade value of more than \$1 billion last year, monopolizes the country's petroleum, oil, plastics, rubber and chemical products.

Andrew Liu, managing director of Morgan Stanley Asia, said: "This transaction reflects the continuing interest of major international banks in financing prime (China) borrowers."

Bright Prospects Seen for Sino-Dutch Relations

*OW0806065191 Beijing XINHUA in English
0513 GMT 8 Jun 91*

[Text] Amsterdam, June 7 (XINHUA)—There are bright prospects for the trade and economic cooperation between China and Holland, and between China and the European Community.

This was agreed by Netherlands' businessmen and government officials and the Chinese purchasing mission, which is visiting Europe.

They called on all parties concerned to continue efforts for expanding such cooperation.

The call was made at the symposium on China's foreign trade and economic cooperation held here Thursday afternoon. More than 100 representatives attended the symposium.

In his speech on behalf of the Dutch Government, Van Denberg, deputy director-general for foreign affairs relations of the Economic Affairs Ministry, said that the Dutch Government was very pleased to receive the Chinese purchasing mission headed by Wei Yuming, former deputy minister of China's foreign economic relations and trade.

He said the Netherlands considered the visit as the first step to expand trade between the two nations and believed that more other steps would follow up.

Changes are taking place in China and China's economy is full of vigor, which is undoubtedly strengthening its open economic policy, Berg pointed out.

He said that there are great potentials in economic cooperation between the two countries, for example, in

the fields of electronics, hi-tech communications, agriculture and its related industries, shipbuilding, space, medical technology, water conservancy projects, environmental technology and transport.

R.S.L.M. de Vilder, chairman of Amsterdam's Association of Industry and Commerce, said the fact that the Chinese mission has come here with one-billion-dollar purchasing list shows China's desire to actively develop economic and trade relations with the EC countries.

The association, composed of more than 6,000 corporations and enterprises, is one of the largest and most influential chambers of commerce in the Netherlands.

Mr. Van Marle, president of the Amsterdam-Beijing association which sponsors the symposium, said the purchasing mission is the largest-scale group visiting the country in recent years. The arrival of the mission shows that the Chinese Government attaches great importance to the development of Sino-Dutch trade relations.

The Chinese mission head Wei Yuming said that his group has signed several contracts worth over 20 million U.S. dollars with Dutch companies and other contracts are under negotiation, which he believed will be signed soon.

The items China will import from the Netherlands include chemical materials, food processing machines and paper.

The Chinese purchasing mission will fly to Italy today, the third stop of its seven-nation trip to Europe.

Foreign Trade Jumps 16 Percent in May

*OW0806110791 Beijing XINHUA in English
1036 GMT 8 Jun 91*

[Text] Beijing, June 8 (XINHUA)—China's foreign trade reached 11.12 billion U.S. dollars-worth in May, an increase of 16.6 percent over the same period last year, according to the Chinese customs today.

China imported 5.25 billion U.S. dollars-worth of products in May, up by 15 percent over the same period last year. The latest increase came largely from the import of materials for further processing, which grew by 48.6 percent.

Meanwhile, the import volumes of products like rolled steel, crude oil, synthetic rubber, wool and synthetic fibers for the textile industry all jumped by large margins.

Trade With Germany Shows 'Heady Surge'

HK0906023691 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 9 Jun 91 p 1

[By staff reporter]

[Text] A heady surge in Sino-German trade in the first quarter of 1991 has prompted Chinese trade officials to

forecast a growing trade volume between the two nations for the whole year.

The initial upward momentum, Chinese officials said, was due to an enlarged German market and China's renewed efforts to absorb foreign advanced technology and equipment during the Eighth Five-Year Plan period (1991-95).

With its economic development gathering pace, China will need more advanced technology and equipment from Germany to promote its key industries, China's trade officials noted.

China has made clear that it will concentrate its investment in such sectors as agriculture, science and technology, education, energy, telecommunications and transportation from 1991 to 1995.

It is admitted that Germany is quite advanced in those industries, trade officials said.

Meanwhile, Germany still needs light industry products and textiles from China.

Germany has been China's biggest trade partner in Europe. Bilateral trade volume between China and the former West Germany reached a record of \$5 billion in 1989.

Trade figures released by China's General Administration of Customs show that China's exports to Germany in the first three months of this year reached \$500 million, up 35 percent over the same period last year, while imports rose 18 percent to \$700 million.

China's exports to the former West Germany have grown steadily over the past few years. While reducing its exports of raw materials and primary products to Germany, China has increased the proportion of finished products.

China's export volume in the first three quarters last year rose 8 percent over the same period of 1989 to \$1.2 billion. But imports fell 29 percent to \$1.7 billion.

Germany's exports to China last year dropped by 20.5 percent to \$2.68 billion compared with a year earlier. But imports from China climbed 15.4 percent to \$1.86 billion.

The main factor behind the fall in import volume was that the former West Germany imposed economic sanction on China after the Beijing June 4 event in 1989.

It cancelled its export credits and suspended its government loans to China.

Also, China's efforts to cool its overheated economy cut domestic demand for imported goods.

Trade with former East Germany last year also witnessed a slowdown as the region overhauled its social system.

China's imports from the former East Germany last year sank 25.5 percent over 1989 to \$250 million while exports plunged 51.8 percent to \$160 million.

Germany and China now enjoy cooperation in such fields as energy, telecommunications, aviation, railroads, light and textile industries, machinery and electronics.

Foreign Investment Continues To Increase

HK0906030091 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 9 Jun 91 p 4

[Text] Foreign investment in China is continuing to gain momentum, according to Yu Xiaosong, director of foreign investment under the Ministry of Foreign Economic Relations and Trade (MOFERT).

In the first four months of this year, China approved 3,059 foreign-funded projects, 90 percent more than the previous four-month period. Their total contractual investment was valued at 43.26 billion, 164 percent more than the same period last year, he said.

From January to March, China approved 109 Japanese-funded projects, 91 percent more than the previous three-month period. The contractual investment reached \$66.4 million, up 45 percent, while actual investment rose 160 percent to \$94.1 million.

Last year, China approved a record 7,276 overseas-funded projects with a contractual investment of \$6.57 billion, he said.

Among the top 10 investors were Hong Kong, Macao, Taiwan, the United States, Japan, Britain, Canada, Australia and Italy, which had all increased their projects and investment on China's mainland.

China approved 341 Japanese-funded projects with a contractual investment totalling \$457 million last year. Between 1979 and 1990, China had approved a total of 1,292 Japanese-funded projects with an aggregate contractual investment of \$3.1 billion.

Of the foreign-invested projects approved last year, the productive ones accounted for more than 90 percent, with an increasing number of projects in energy, transport and communications that were supported by the government.

There was also a big increase in the number of hi-tech and export-led projects, Yu said.

In recent years, Japanese investors have pumped funds into an increasing number of high-tech and infrastructural projects such as the Beijing-Matsushita television tube company, a cement firm in Dalian, a TV-monitoring firm in Shenzhen and a coal slurry firm in Shandong, he said.

In addition, NEC of Japan, an electronics concern, has signed a contract with Beijing to produce large-scale

integrated circuits and another contract with Tianjin to develop computer-controlled telephone exchanges, he said.

Some coastal cities are also negotiating with Japanese investors over a group of hi-tech projects.

LABOR

Government To Expand Labor Exports

OW0207182991 Beijing BEIJING REVIEW English
No 26, 1-7 Jul 91 p 7

["Labour Export To Be Expanded"]

[Text] China must improve management and adopt favourable policies towards those who work overseas if it is to improve its position on the world labour export market, according to an article in the Beijing-based CHINESE LABOUR GAZETTE.

China has a huge surplus workforce, which by the year 2000 is expected to increase to 200 million in rural areas. Yet, its labour exports still lags far behind that in other populous countries.

China's labour export earnings in the past nine years were a mere US\$1.1 billion, compared with a general export revenue which exceeded US \$50 billion in 1990 alone.

The gazette attributed this situation to poor strategic planning. The underdevelopment in labour export is also because of poor management which had caused bad cooperation between labour export organizations.

To remedy the situation, the gazette suggests: first, goals for labour export within a given period of time should be specified; second, the focus should be placed on labour-intensive projects before shifting to technology-intensive projects since the quality of China's labour force is yet to be improved and funds are inadequate; and third, diversify labour export outlets to serve different market needs and put the labour force to best use.

The gazette also suggests that the government establish a functioning body to manage, supervise and coordinate labour export from a macroeconomic point of view. Training centres, it says, need also be set up to improve the quality of workers going abroad.

POPULATION

Shandong Communique on 1990 Census

SK2407061991 Jinan DAZHONG RIBAO in Chinese
5 Jun 91 p 3

[The Communique No 6 on key data from the 1990 population census, issued by the Shandong Provincial Statistical Bureau on 28 May 1991]

[Text] Based on the specifications of Article 26 of the "Regulations for the Fourth National Population Census" promulgated by the State Council, the task of making an early sampling summary of the fourth provincial population census using computers has been successfully completed. The summary used a sample of 8,343,171 people in the province, and the sampling ratio is 9.89 percent. Following are the released key data of the sampling summary:

1. Age structure of the population. In the province, the proportion of population between the ages of 0 and 14 is 26.59 percent; between the ages of 15 and 59 is 63.95 percent; aged 60 and above is 9.46 percent, of which the proportion of those aged 65 and above is 6.23 percent; and the mean age of the population is 26.37 (see note 1). Compared with the data of the 1982 population census, in the span of eight years, the proportion of the population between the ages of 0 and 14 dropped by 4.45 percentage points; age 15 to 59 rose by 3.64 percentage points; age 60 and above rose by 0.81 percentage points; age 65 and above rose by 0.61 percentage points; and the mean population age rose by 1.82 years.

2. Population employment situation (see note 2). The employed ratio of the province's population aged 15 and older is 82.04 percent. The ratio of the unemployed population is 17.96 percent, of which the proportion of students is 4.62 percent; homemakers, 7.44 percent; the school-bound people, 0.11 percent; people awaiting jobs in cities and towns, 0.25 percent; retired people and those who have resigned their jobs, 1.68 percent; the people unemployed due to disabilities, 3.67 percent; and other unemployed people, 0.19 percent. Compared with the data of the 1982 population census, in the span of eight years, the proportion of the employed rose by 3.91 percentage points; students rose by 0.92 percentage points; homemakers dropped by 5.69 percentage points; the school-bound population dropped by 0.08 percentage points; unemployed people in cities and towns rose by 0.15 percentage points; retirees and those who have resigned their jobs rose by 0.52 percentage points; and the people unemployed due to disabilities and other reasons rose by 0.27 percentage points.

Employment by industry (see note 3) in the province is 79.25 percent in primary industry, 12.06 percent in secondary industry, and 8.69 percent in tertiary industry. Compared with the data of the 1982 population census, in the span of eight years, proportion of employment in primary industry dropped by 0.79 percentage points, that in secondary industry dropped by 0.23 percentage points, while that in tertiary industry rose by 1.02 percentage points.

3. Marital status of the population. Among the population throughout the province aged 15 and above, 23.93 percent are single, 69.37 percent are married, 6.34 percent are widows or widowers, and 0.36 percent are divorcees. Compared with the data of the 1982 population census, the proportion of the single population dropped by 4.25 percentage points, married people rose

by 5.37 percentage points, widows and widowers dropped by 1.08 percentage points, and divorcees dropped by 0.04 percentage points.

4. Women's fertility. The total fertility rate of women in the province was 2.12 (see note 4) in 1989, up by 0.05 from 2.07 in 1981.

Of the women in the province who gave birth in 1989, 48.99 percent gave birth to their first child, 34.13 percent gave birth to their second child, and 16.88 percent gave birth to their third child or above. Compared with 1981, the proportion of first children dropped by 11.49 percentage points, second children rose by 9.46 percentage points, while third children and above rose by 2.03 percentage points.

In 1989, women of child-bearing age in the province gave birth to their first child at the average age of 23.93 years, 2.13 years earlier than in 1981.

In 1989, the peak child-bearing age of the women in the province was 24 years, and the child-bearing rate was 226.28 per thousand. Compared with 1981, the peak child-bearing age was one year younger, and the child-bearing rate dropped by 59.11 permillage points.

5. Situation of population migration. Between 1 July 1985 to 1 July 1990, among the migrant population who moved their place of residence across counties or from city to city (see note 5), the proportion of the population which moved to the province from outside places in the total population of the province was 0.73 percent; the proportion of the population that moved from the province to outside places was 0.63 percent, with the proportion of the net move-in population reaching 0.10 percent. In the total population of the province, the proportion of the population who moved their place of residence within the province was 1.36 percent. Among the population who moved their place of residence within the province, 44.92 percent moved from rural areas to cities and towns, 3.04 percent moved from cities and towns to rural areas, 46.43 percent moved from cities and towns to other cities and towns, and 5.61 percent moved from rural areas to rural areas.

Notes:

Note 1: Figure derived by adding the total number of people from age 0 onward until at such age where half of the total population is reached.

Note 2: Employed population includes those who have permanent employment as of July 1990, those without permanent employment but were employed on temporary basis as of 30 June 1990, or workers who have worked for 16 days of more in June 1990 and have received wages or business income; unemployed population includes students, homemakers, the school-bound population, unemployed people in cities and towns, and people who have retired, resigned, or lost their working abilities.

Note 3: Primary industry means agriculture, forestry, animal husbandry, and fishery sectors. Secondary industry means industry and construction sector. Tertiary industry means geological survey and exploration sector, transportation, posts, and telecommunications industry; supply and marketing of goods and materials and warehousing industry; property management; public utilities; resident services and consultative services industry; public health, sports and social welfare, education, arts, cultural and broadcasting industry; scientific research and comprehensive technical services industry; finance; insurance; state, people's government, and party organs; and social groups.

Note 4: The total fertility rate means the total fertility rate of women of each age group in one particular year. This reflects the average birth rate per women of child bearing age basing on the fertility level of women in the same age group in the same year.

Note 5: Includes those who have completed documentation for moving place of domicile across the counties and cities, and those who have not completed documentation work but have moved out of original place of domicile for more than a year.

TRANSPORTATION

Shenyang-Irkutsk Air Route Opens

OW0207165591 Beijing XINHUA in English
1444 GMT 2 Jul 91

[Text] Shenyang, July 2 (XINHUA)—The Shenyang-Irkutsk air route, the fourth international air route between China and the Soviet Union, opened today.

The total distance of the new route is 2,116 km. The new air route shortens the previous 60-hour travel time between Shenyang, the largest city in northeast China, and Irkutsk, a city in the Far East region of the Soviet Union, to three hours.

The Chinese undertaker of the new route is China Northern Airways. The airline will have a return flights every Friday on a Md-82 passenger plane, and the Soviet side will a U-154 passenger plane every Tuesday.

The other three air routes between the two countries are Beijing to Moscow, Urumqi to Alma-Ata, and Harbin to Khabarovsk.

AGRICULTURE

Liaoning Crop Policies During Eighth Five-Year Plan

91CE0432A Shenyang NONGYE JINGJI
[AGRICULTURAL ECONOMY] in Chinese No 1,
13 Feb 91 pp 16-17

[Article by the Liaoning Department of Agriculture and Animal Husbandry: "A Survey and Suggestions on Grain, Oil Crop Production Policies"]

[Excerpts] [passage omitted] **Ideas and Suggestions for the Eighth Five-Year Plan**

It is predicted that during the Eighth Five-Year Plan the annual per-capita consumption of grain in Liaoning will reach 412.5 kg, which is an increase of 12.5 kg—or a little more than 3 percent—over the level of consumption during the Seventh Five-Year Plan. To sustain this level of consumption Liaoning will need 16.9 billion kg of grain per year, or 1.87 billion kg per year more than was needed during the Seventh Five-Year Plan. By 1995 the population of Liaoning will rise to 41.8 million people, and we will need 17.25 billion kg of grain per year to feed them—up 12.7 percent over 1990. Grain to supply this new increase in grain consumption can only be obtained by enhancing Liaoning's own grain production capacity; we cannot expect the state to increase imports from other provinces, nor can we rely on imports from abroad. Consequently, our provincial grain development strategy must be based upon essential self-sufficiency in grain, and only to a very minor degree upon imports. Based upon Liaoning's current grain production capacity and potential, and considering future social conditions and growth, our strategic goal is to restore grain production within the next two to three years to the highest level previously achieved. Thereafter we will strive to reach or surpass the annual goal of 116.0 billion kg [as published] within the Eighth Five-Year Plan and 17.5 billion kg by the end of the century.

To achieve the aforementioned grain production goal, we must steadfastly support the policy of "sustained effort in grain production and vigorous development of a diversified economy," and we must constantly focus on grain production as the foundation of the national economy. But in addition to this, we must rely on three things: policy, science, and inputs. Our proposals are as follows:

1. We must create a macroeconomic environment conducive to grain production. If we are to encourage peasants to grow grain, we cannot depend solely on either the peasants own efforts or on reform in the agricultural sector. We must first create a nationwide macroeconomic environment conducive to grain production. In this regard, we would like to propose the following suggestions: First, we must correct the status of grain production. That is, in this new age, to truly prevent and rectify the "industrial bias" and "urban slant" in our investments and policies, we must correctly understand and skillfully handle the relationships between industry and agriculture and between urban and rural areas. There is some connection between the fluctuations in grain production we have experienced in recent years and the "urban slant" to our policies. It is the upper echelon that has been making the biggest fuss about agriculture—although everyone has been saying how important it is—yet we really have not made a concerted effort to develop this sector. The problem is that when our stomachs are empty we think about agriculture, but when our stomachs are full we forget all about it. More often than not, our criteria for "fullness"

and "emptiness" is based largely upon the urban standard of living. Generally, when urbanites are satisfied we are apathetic about "supporting agriculture." We spend money generously on urban construction, but when it comes to agriculture we endlessly discuss even the smallest expenditure, which makes it difficult to get anything done. Second, we need to reorder our pricing system. Based on the current situation facing China, a major change in grain prices is unwarranted. But there is also no use in taking half steps or doing fine tuning that will have no impact on developing grain production or alleviating the conflict between grain supply and demand. The approach we must take is to stabilize prices of agricultural production materials, and then, on that basis, make suitable increases in contract procurement prices for grains. The scale of price increases should be related to conditions at that time in Liaoning. The scale of price increases overall should amount to no less than 20 percent of the quota procurement price, though for any one of the five grain crops (corn, sorghum, millet, wheat, and rice) it might be somewhat lower or higher. Corn is an extremely important crop in Liaoning, and it has a lot to do with the security of grain supplies, market stability, and boosting peasant incomes. Therefore, the price of corn should increase by a correspondingly large amount. Rice is the most prevalent fine grain in Liaoning, and it is also a stable, high-yield crop. In recent years the price of rice has increased significantly. At the previous price parity, one jin of rice could be exchanged for 1.46 jin of corn, whereas now it can be exchanged for 1.73 jin of corn. Production returns from rice are more than twice as high as those from corn. This is advantageous for the development of paddy production, but it also encourages indiscriminate conversion of cropland into paddy without regard to water resource conditions. This is something that should be brought under control. Liaoning needs to expand soybean cultivation, but in recent years returns from soybean production have been low and peasants have been abandoning it in droves. Soybean prices need to be boosted by a suitable margin. Considering that it would be inadvisable to raise soybean prices so high all across the nation, we should give Liaoning the right to provide nonprice subsidies on soybean production. After grain quota procurement prices are revised we should, on that basis, readjust price parities among agricultural products in order to facilitate unified price adjustments and avoid confusion. Third, we must reform the system of grain purchasing and selling. As quickly as possible, we must establish central and local wholesale grain markets and a market contingency fund system to resolve buying and selling problems and thereby avoid the wide fluctuations in supplies and pricing that have been common in the grain market, dampening peasant enthusiasm for grain farming. At the same time, the state should reappraise quotas for grain importing and exporting regions, and, in conformity with the principle of preserving priorities and safeguarding grain rations, work level by level and region by region to resolve the discrepancies between supply and demand and encourage local areas to do a good job in grain production. Fourth, we need to increase many

kinds of agricultural inputs and resolve to remedy the fact that capital construction on farmland constitutes such a small proportion of our total investment in capital construction. Based on conditions in Liaoning, in 1991 we should strive to restore investment in capital construction on farmland to 10 percent, which was the level of investment we maintained during the 4th Five-Year Plan: That is, we should raise the percentage of total provincial finances expended on agriculture from 6.6 percent to 10 percent. Simultaneously, the municipalities, counties, and townships should also progressively increase their agricultural inputs. As far as possible, they should spend most of their discretionary funds on agricultural construction and take an active lead in encouraging peasants to increase their investment in grain production. Moreover, they should also open channels wide, establish an agricultural development fund; and in addition to monetary investment, expand material inputs as much as necessary for growth in grain production. During the last portion of the Eighth Five-Year Plan Liaoning needs a net increase of 4 billion kg of grain. This will require an additional 1.2 million tons of chemical fertilizer, including 800,000 tons of nitrogenous fertilizer. Consequently, we need to accelerate the growth of agricultural support industries and improve our ability to supply production materials so that chemical fertilizers, pesticides, plastic mulch, farm machinery, and other material inputs and yield-boosting measures crucial for grain production are sufficient to meet demand.

2. If we are to intensify overall rural reform and vitalize agricultural development, we must consolidate and perfect the output-related system of contracted household responsibility. Once we have stabilized that system we can strengthen the cooperative sector of the economy at the primary village level, enhance social services, encourage and support all kinds of collectively and individually-run service entities, establish multi-level, multifarious social service organizations that cut across diverse economic sectors, and supply peasants with superior pre-production, production, and post-production services. Where conditions permit we should actively promote intensive farming and, based on the principle of voluntary participation, develop large-scale farming operations and raise the levels of agricultural specialization, socialization, and commercialization. We must make steady progress in readjusting the composition of rural industry. Given the assurance of steady growth in grain production, we should actively develop secondary and tertiary industries. We need to gradually create a scientific mix of industries that will aid each other and develop in coordination with one another. We must work conscientiously to augment the rural grassroots power base and do all we can to ensure that, after several years of hard work, organizations at the township (town) and village levels become command posts for guiding the countryside in building and strengthening the two cultures. We must continue to take steps to ensure that industry subsidizes agriculture and specialty crops subsidize grain crops, and we must shrink the gap

between the interests of grain production and those of nongrain crop production and the nonagricultural sector. It is important that we perfect the grain crop insurance system and strive to dispel grain farmers' doubts.

3. We must develop agricultural science and technology and work hard to improve unit grain yields. Right now agricultural science and technology account for only about 40 percent of our growth in agriculture—far less than the 60-80 percent common in developed countries. Consequently, if we are to ensure sustained, stable growth in agricultural production, we must work in earnest to enhance agricultural science, technology, and education. (A) A major effort should go into popularizing suitable techniques for boosting yields. Within the next few years our emphasis should be on promoting combined cultivation techniques that produce high, stable yields, as well as on yield-boosting dryland farming technology; water conservation and irrigation techniques; mulching and covered cultivation techniques; superior fertilizer compounding and application techniques; undersowing and succession sowing techniques; and comprehensive disease, pest, and weed control. In other words, we must rely on enhancing factors that produce high yields in order to improve unit grain production. At the same time, we should launch contests to produce higher crop yields and induce competition to produce bumper harvests, combining the dissemination of yield-boosting techniques with harvest competitions among the masses. (B) We need to establish and perfect a system for disseminating the results of research in agricultural science and technology, gradually producing a system that covers all specialties, embodies a reasonable stage-by-stage composition, and helps us translate science and technology into productivity. Moreover, from a foundation consisting of perfected county-level agricultural technology extension centers, we must strive to promote locally run county and village technology service stations and various kinds of popular farmer technology research associations. Scientific research and technological extension units must deal with economic entities in the light of practical circumstances and combine compensated services with technological goods, thus facilitating development in agricultural science and technology and in production. We should encourage agricultural scientists and technologists to go deep into the countryside to develop specialized technical contracting and group contracting and guide science and technology toward a comprehensive system of grain production services. (C) Given the best and most complete use of existing resources, the "bumper harvest program" should guide us and we should focus on the "four projects" to further develop new resources to improve our overall grain production capacity. We must conscientiously handle the mission assigned to our province under the national grain and oil-crop "bumper harvest project" and simultaneously do a good job at the provincial level "bumper harvest project," ensuring that tasks have been assigned for all staple crops and all different regions. This can be the spearhead that spurs the dissemination of various technological assignments.

The "four projects" are as follows: The paddy rice "111 Project" proposes that by the end of the Eighth Five-Year Plan Liaoning should have expanded its paddy cultivation area from the current 9 million mu, to 10 million mu, raised its average per-mu yield from 850 jin to 1,000 jin, and achieved a total harvest of 10 billion jin. The corn "111 Project" seeks to build a high-yield corn belt stretching between the five cities of Tieling, Shenyang, Anshan, Liaoyang, and Yingkou, covering 10 million mu and raising the corn yield from 873 jin per mu—the current level—to 1,000 jin per mu, thus boosting the overall harvest to 10 billion jin. The remaining two projects are to, by the end of the Eighth Five-Year Plan, complete construction on a 3 million mu wheat production base with a yield capacity of 800,000 tons, and to remake 3 million mu of low-yield acid, deserted, or water-logged land so as to increase total yield by 450,000 tons. When the four projects are completed they will guarantee the production of 12.5 billion kg of grain on 26 million mu of land. On an additional 20 million mu the average yield will be at least 200 kg per mu, thus ensuring that we can fulfill Liaoning's stated goal to produce 16.5 billion kg of grain. (D) We must adopt multi-pathway, multi-level, multifarious methods to sustain perennial programs aimed at eliminating illiteracy and providing spare-time education, while simultaneously handling technical training for peasants and imparting techniques to produce high, stable yields. This will raise the quality of the peasants themselves and expand the scientific and technical ranks among them.

4. We must bring losses of arable land under control and actively nurture soil fertility. Between 1949 and 1988 the total area of cultivated land in Liaoning dropped from 71,090,000 mu to 52,178,000 mu, constituting a net decrease of 18,912,000 mu, or 26.6 percent. Moreover, during the same period of time the total population of the province grew from 18,305,000 to 38,255,000, constituting a net increase of 19,950,000 people, or 109 percent. As a result of shrinking cultivated land and burgeoning population, the average land holding has decreased from 3.88 mu to 1.36 mu per capita. This landholding is lower than the national average, and falls far below the world average. This presents many problems as far as both production and standard of living are concerned: First, it makes it very difficult to boost the average per-capita grain allotment; second, it affects the development of cash cropping; third, it increases the pressure on national economic growth, and fourth, it increases the surplus agricultural labor force. To be effective in bringing arable land shrinkage under control, leaders at all levels of government must work in earnest to enhance land management, gradually put together a land management system, and conscientiously enforce the "Land Law." We must establish and perfect a system of land-use fees and land reclamation, demarcate arable-land protection zones—especially on stable, high-yield lands—and strictly control the occupation of land for nonagricultural use. Urban and rural areas alike must draft plans for housing construction that restrict the scale of development and, as far as possible, mandate building

extensions upward or below ground, thus putting a stop to arbitrary expansions of living space. As far as possible, we should progressively recover land that has been flooded or smothered by sand and work deliberately to reclaim all reclaimable resources. Moreover, we should put a great effort into improving production benefits from existing land. We must apply engineering measures, biological measures, and all other possible methods—including encouraging more use of farmyard manure, the tilling of straw into the fields, and compensated land transfers—to ensure that soil fertility is quickly restored and continues to rise.

5. We must strive to develop agricultural resources and continue to focus on the construction of commodity grain bases. There is additional material on specialized subjects that we will not explore further here.

Survey of Negotiated Grain Procurement in 1990

91CE0595A Beijing JIAGE LILUN YU SHIJIAN
[PRICE: THEORY AND PRACTICE] in Chinese No 4,
Apr 91 pp 23-24

[Article by Ceng Hua (2582 5478): "Dissecting 'Stalled Grain Sales'—Survey of Negotiated-Price Grain Sales by the Peasants in 1990"]

[Text] Learning from the experience of how the surplus grain was handled in 1984, the state has handed down guidance price and minimal protection price for the negotiated procurement of wheat, rice, and maize and other staple food categories in June, August, and November of 1990. In terms of quantity, it has asked all regions to try to make negotiated procurements and not to limit their purchases or refuse to buy. It has also decided to purchase 17.5 to 22.5 billion kilos of grain as special reserve at the guidance price for negotiated purchases. How are these protective measures being carried out? What are the peasants' reactions? To answer these questions, we have made a preliminary investigation in more than 200 department-run agricultural information points and in several provinces and cities. The basic situation is as follows:

A. Grain sales have increased, but state procurement has decreased. There has been no increase in negotiated purchases.

The state's 1990 fixed-quota procurement remained at 50 billion kilos (commodity grain.) This task is basically complete. In addition to its regular negotiated grain purchase, the state has allocated additional procurement funds to buy grain as special reserve. In accordance with the State Council's instruction to increase purchase of the peasants' surplus grain, the amount of negotiated grain purchase should exceed 1989's. But up to the end of December, negotiated purchases (including special reserve) amounted to 34.99 billion kilo, 10.9 percent below last year's purchase for the same period. On the other hand, the grain supply is much larger. Grain sales in 1989 started out firm but turned soft, and many peasants had hoped that grain price would rebound, and

so they had hung on and waited. Some peasants had thought that grain would retain its value if they waited long enough. Some had worried about natural disasters and wanted to stock up. These surplus grain flooded the market at the heels of the 1990 bumper harvest. In addition, grain production increased by more than 10 billion kilo in 1990, and the silos were already overflowing in some areas even before the new crop hit the market. Thus, the peasants are finding grain even harder to sell this year than last. This is practically a nationwide phenomenon. Sample survey showed that after deducting ration grain, seed grain, and feed grain, on the average, each peasant has about 60 kilo of surplus grain to sell.

B. Most negotiated purchases stick to the minimal price.

To avoid excess fluctuation in grain prices, the State Council has set a guidance price for the negotiated procurement of medium-standard grade wheat, early rice, late rice, round-grained rice, hybrid rice, and maize. Among them, northern wheat is priced at 46 yuan per 50 kilo; southern wheat at 41 yuan; early rice at 37 yuan; northeastern maize at 25.5 yuan; north China maize at 27.5 yuan. Fluctuation is limited to no more than 10 percent above and no more than 5 percent below those prices. The provinces, prefectures, and counties may set their own negotiated procurement prices and minimal protection prices based on these prices. But in practice, except for Shanghai and Beijing, most provinces, prefectures, and counties set their prices below the minimal protection price. This situation is due largely to the lack of grain silos, which makes storage a problem; to excess supply over demand, which makes transportation a problem; to the inversed relationship between purchase and sale prices, which makes procurement a problem. The direct causes include the following:

1. Negotiated procurements are subsidized at different rates and the procurement funds are paid by different people at different levels, and as a result, the negotiated grain procurement price differs at different levels. The central government's special reserve grain is basically purchased at the negotiated procurement guidance price or at minimal protection price. The central government's negotiated-turned-parity-price-grain is subsidized at 0.067 yuan per jin and the balance is made up by local subsidies and therefore it more or less adheres to the minimal protection price. The remaining province-level, city-level, and county-level negotiated procurements often pay what the market will bear, which usually falls below the minimal protection level.

2. The negotiated procurement guidance price is slow in reaching the grassroots level. Some counties and cities, especially in the major grain producing areas, have already made some of their negotiated purchases at fairly low prices.

3. Compared to other years, many regions are demanding higher quality grain in their 1990 negotiated purchases. They are fairly strict about deducting for

impurities and water weight and are buying less grain of medium-standard and above grade.

C. Efforts to increase negotiated grain procurement have run into difficulties.

Despite the central authorities' repeated orders telling the local grain departments not to refuse or limit grain procurement, in reality grassroots grain stations have temporarily suspended purchases or are limiting their purchases in most areas where there is surplus grain. The failure to increase procurement is due to the following reasons:

First, the dual nature of the grain department makes it impossible for it to absorb the loss mandated by the state's negotiated procurement policy. When making fixed quota purchases, the grain department is exercising its administrative function; when making negotiated purchases, it is acting as an enterprise unit which is responsible for its own profits and losses. Because grain circulation is blocked, it has to pay interest on the funds held up in the purchases; it has to pay storage, damage, and safe custody fees, and it loses money due to the inversed margin between selling and purchasing prices and so on. To buy an extra jin of grain at negotiated price means accepting more loss which it is neither willing nor able to accept.

Second, producing and selling grain are not like running local industrial enterprises. They do not directly provide the local governments with revenues. The success of agriculture depends primarily on the grain output and net income norms. Thus local governments are unwilling to spend their own money to subsidize negotiated-price grain, and so the amount of purchase is often limited.

Third, the state has not invested sufficient funds in building grain silos. For many reasons, local governments and grain enterprises too are unwilling to build more storage facilities, and so there has been little improvement in the situation, and even in counties and cities that are not major grain producers, a bumper crop often creates shortage problems.

Fourth, there is a lack of grain procurement funds. Funds are being transferred back and forth between the higher and lower level grain departments. The banks do not guarantee the grain department's procurement fund loans or the procurement funds allocated by the financial department or the additional funds allocated for extra negotiated grain purchases. As a result, to protect themselves, the grassroots procurement stations limit their acceptance of or simply reject those payments.

The abnormal fluctuation in grain prices and the reality of stalled grain sales should direct our attention to four areas:

1. The realization of value for commodity grain is the last link in the grain production process. It is the most important factor that mobilizes the peasants to engage in reproduction and to add productive input. However, the

main indicators that determine the success of a local government are the grain output and the peasant's per capita net income, but there is no hard guarantee that the peasants will be able to earn an income and sell the commodity grain which they have produced in response to the state's call and at the state's guidance price; it is entirely the peasants' own business. Today, the peasants urgently need someone to help organize commodity circulation and provide processing and storage techniques and information about state procurements, prices, and the market and other post-production social services. But the departments in charge have not yet put these matters on their agenda.

2. The 1990 fixed-quota grain procurement price has remained unchanged, but all other procurement prices are lower. This tends to give the peasants the wrong impression that the state does not want them to produce more grain. Today, the low fixed-quota grain procurement price remains a problem, but most regions have not decontrolled the grain market because they have not completed their grain purchases. This makes the peasants feel that there is simply no outlet for their grain.

3. The double-track grain pricing system and the outdated marketing system are the root causes of poor grain circulation.

4. We must change the setup where the grain procurement department is responsible both for the planned procurement and supply and for the negotiated grain purchases in which it is responsible for its own profit and loss. It should not take on both jobs and mix the accounts. The grain purchase and sale department should keep government and enterprise separate.

Improve Procurement Fund Supply, Management

91CE0592A Beijing JINRONG SHIBAO in Chinese
3 May 91 p 2

[Article by Hui Wen (2585 2429) and Dong Qiu (2639 3061): "How To Solve the Administrative Problems and Improve Agricultural and Sideline Product Procurement Fund Supply and Management"]

[Text] In recent years, although the amount of agricultural and sideline product procurement funds has been increasing each year, we still have not completely solved the procurement failure problem. This is mainly because we have not yet solved some administrative problems.

A. The conflict between the "two no-guarantee" principle of the banks with regard to fund supply and the central government-guaranteed procurement fund principle:

As far as the banks are concerned, they must abide by the principle that People's Bank does not guarantee the specialized banks' funds and the specialized banks do not guarantee enterprise funds. However, agricultural product procurement funds follow the central government-guaranteed principle, which to a very large extent

has fostered those ideas of the procurement departments, especially the grain and cotton procurement departments, of eating from the banks' big pot. The always-guaranteed supply of procurement funds have prompted some procurement departments to spend their money recklessly. For example, some use the procurement loan funds to do business based on negotiated price and which has nothing to do with procurement, or spend the money on merchant-run industries. Some even use the procurement loan funds to repair and operate public housing and dormitories, or buy cars.

B. The conflict resulting from the fact that the procurement departments can spend their money before the banks have a chance to audit and monitor the spending.

Since the procurement departments can spend money they do not have by using the money the sale of goods, and because some procurement departments have small plans but big expenditures and some spend money even if there are no plans, once they have overextended themselves, they must borrow money from the banks to make up the deficit. The procurement departments' financial quotas are not sent to the auditing or the banking units, so there is no way for the banks to make sure that the spendings are legitimate.

C. The problem resulting from the fact that the procurement departments' business management is separated from their financial management.

The grain, cotton, and oil procurement departments have province-level management rights, but their finances are accountable at separate levels. Management-related losses due to bad management decisions made at the higher levels are not borne by the higher authorities but by the lower level departments. At the same time, under the current dual-track grain pricing system, bank loans for parity price grain, negotiated price grain, and grain processing are commingled. The procurement departments often let sideline businesses and industrial operations use up the procurement funds and disguise their management-related losses as policy-induced losses, so that most of their losses can be remedied by bank loans.

D. The conflict between the obligation to pay for losses caused by the grain policy and the local government's limited financial ability to pay.

The base amount of grain and oil policy-induced loss was determined in 1981, at the inception of the policy of eating out of separate financial pots. Some localities now deal with their failure to fulfill their procurement duties in some years by turning negotiated price grain into parity price grain; some substitute different grades of grain to regulate the deficit; some use parity price grain as disaster-relief grain. These and other policy-based management methods use up a large amount of the procurement funds, and the additional deficit becomes a policy-induced loss. The grain departments have no

money to remedy this loss, nor do the local financial administrations, and so there is a large portion of unclaimed deficit.

The authors suggest adopting the following administrative measures to solve the problems:

1. Procurement funds should be managed as special funds earmarked for special use to prevent loss. The procurement enterprises should open special procurement deposit and loan accounts in the primary level specialized bank offices, and similarly the specialized bank offices should open accounts in the county (city) branches, and the county (city) branches should open accounts in the People's Bank. The settlement method should be changed. All payments for transfer and sale of goods should be remitted and transferred to the People's Bank and deposited into the special accounts to prevent the specialized banks from using the procurement funds to cover other deficits. Grain, cotton, and oil procurement loans as well as the loan volume should be allocated and controlled separately.

2. A procurement fund responsibility system should be set up at each level and for each department to give the departments greater fund gathering responsibility. Each department should divide its fund gathering responsibilities among different levels and departments, and the departments should be checked regularly. An orderly fund-use system should be implemented. Reckless use and misappropriation of procurement funds should be severely punished.

3. We should manage the procurement and combination transfer-and-marketing of agricultural and sideline products "in one stroke." This not only can curb the man-made separatist tendency in procurement fund use, eliminate settlement problems, and reduce the use of procurement funds, but it will also designate a fund management body and strengthen the specialized banks' management responsibility.

4. We should separate the policy-based operations of grain and oil businesses from their market-oriented operation. We should reform the current grain and oil procurement system which mixes parity price with negotiated price commodities and put them in the same account. We should keep the market-oriented operation separate and set up companies that specialize in the management of negotiated price grain and oil. These companies should keep independent accounts and take responsibility for their own profit and loss. This is to prevent them from disguising their policy-related losses as management-related losses to hide their misuse of procurement funds.

Shanxi Rural Savings

91P30162E Taiyuan SHANXI RIBAO in Chinese
25 Jun 91 p 1

[Summary] At present, rural saving deposits in Shanxi Province exceed 11.8 billion yuan; per capita savings are 545.06 yuan.

Shandong Surpasses Summer Grain Purchasing Target

OW1107062891 Beijing XINHUA in English
0238 GMT 11 Jul 91

[Text] Jinan, July 11 (XINHUA)—Shandong Province in east China has surpassed its summer grain purchasing target set by the state this year.

Up to now, the province has purchased 2.34 billion kg of wheat, exceeding last year's purchases by more than 800 million kg.

Shandong is expected to harvest more than 17.5 billion kg of wheat this year, a record in the history of the province.

Hunan Reaps Bumper Spring, Summer Harvests

HK1307073691 Changsha Hunan People's Radio
Network in Mandarin 2200 GMT 11 Jul 91

[Text] The latest statistics released by the provincial statistics bureau show that Hunan gathered in a bumper harvest of spring-harvested grain and oil-bearing crops, with output once again hitting an all-time high following last year's example.

This year, Hunan's output of spring- and summer-harvested grain totaled 613,000 tons, up 18.3 percent over last year. The province-wide gross output of rapeseed amounted to 740,400 tons, up 19.1 percent over last year.

June Import Volume of Cereals, Oils

HK2007023991 Beijing CEI Database in English
19 Jul 91

[Text] Beijing (CEI)—Following is a list showing China's import volume of cereals and oils in June 1991, released by the General Administration of Customs:

Item	Unit	June 1991	June 1990
Cereals	ton	1,006,064	1,382,285
Wheat	ton	930,349	1,224,792
Soybean	ton	26	53
Sugar	ton	24,437	107,106
Animal oils and fats	ton	5,350	4,449
Edible oil	ton	20,073	58,400
Other oils	ton	138,072	67,851

June Export Volume of Cereals, Oils

HK2007010891 Beijing CEI Database in English
19 Jul 91

[Text] Beijing (CEI)—Following is a list showing China's export volume of cereals, oils and food in June 1991, released by the General Administration of Customs:

Name	Unit	June 1991	June 1990
Pig	head	247,945	223,838
Poultry	in 10,000	382	304
Beef	ton	17,505	11,505
Pork	ton	14,941	19,103
Chicken	ton	4,193	3,290
Rabbit	ton	1,093	1,660
Egg	in 1,000	60,072	51,090
Aquatic Products	ton	30,876	25,859
Fish	ton	4,524	1,950
Prawn	ton	3,715	1,524
Cereals	ton	910,553	610,669
Rice	ton	52,177	9,108
Soybean	ton	86,217	73,468
Pulses	ton	58,551	84,765
Maize	ton	675,591	354,062
Vegetables	ton	76,242	51,737
Fruit	ton	7,486	7,715
Orange	ton	295	14
Apple	ton	0	0
Sugar	ton	27,215	38,399
Canned food	ton	60,991	57,191
Pork	ton	14,764	15,132
Vegetables	ton	24,125	26,711
Fruit	ton	6,319	3,384
Others	ton	15,782	11,965
Vegetable oil	ton	12,552	13,850
Peanut	ton	43,093	38,399

Cotton Shortage Plagues Textile Mills

HK2207052691 Beijing CHINA DAILY in English
22 Jul 91 p 4

[By Zhai Feng]

[Text] The bumper cotton harvest of last year has not silenced complaints of managers of State-owned textile mills about shortages.

The 1990 cotton yield rose to 4.31 million tons, up 520,000 tons from the previous year, according to the State Statistics Bureau.

"This means that the nation has finally halted the down-turn in cotton production," said Chen Jian, a scientist from the Chinese Agricultural Economics Association in an interview with China Daily.

After recording 6.25 million tons in 1984, cotton output had decreased for five years running, but the researcher

added that the textile industry can consume about 5 million tons of cotton a year.

Last year the nation raised the price of ginned cotton to seven yuan per kilogram, a 27 percent rise over the year before, assured cotton growers of grain supplies at favourable prices, and mapped out other preferential policies to encourage more farmers to plant the cash crop this year.

A sample survey of over 70,00 farmers in 800 counties sponsored recently by the State Statistics Bureau shows that this year farmers are estimated to have planted about 6.6 million hectares of cotton, an increase of nearly 20 percent over last year, marking the largest acreage of farmland devoted to cotton production since 1985.

Chen predicted that the cotton yield will moderately increase in the year, even though the recent heavy rains have hit eastern China hard.

"However, even the promising cotton harvest of this year will probably be unable to meet the domestic demand," said the researcher.

Cotton accounts for about 70 percent of the raw materials which the textile industry needs.

Raw materials shortages have left many textile plants running at half capacity, and then reduced their returns.

Minister of Textile Industry, Wu Wenying, was quoted at a recent conference as saying, "The textile industry has slid into an impasse, and now many producers run at a loss."

Profits of the 1,334 State-owned cotton mills in 39 cities declined by 38 percent in the first five months of this year compared with the same period of 1990, and 46 percent of them were in the red, 10 percentage points higher than at the same time of last year, according to Wu.

"It is a rare phenomenon in the national economy since 1949," Chen Jian argued.

"The runaway development of the textile industry itself has desperately aggravated the strains on the cotton supply," he added.

The textile industry, a pillar of the national economy, employs more than 8 million workers, and boasts about 40 million spindles, ranking first in the world.

The output value of the textile industry reached more than 140 billion yuan (\$26.4 billion) last year from 56 billion yuan (\$10.5 billion) in 1978.

However, the nation produced no more than 3.79 million tons of cotton in 1989, 65 percent less than in 1984, according to the State Statistics Bureau.

At the same time rural cotton mills, which have mushroomed throughout the country over the past few years, are competing with State-owned textile plants for cotton.

The rural cotton mills, mostly run by farmers-turned-entrepreneurs, have 11.4 million spindles as a whole, and consume 1.75 million tons a year, nearly half the country's total cotton output.

Trade

Under the current economic policies, collectively-run supply and marketing cooperatives monopolize the trade in cotton, and sell the raw materials to State-owned textile plants at low State-set prices.

Usually, the State-owned mills can get about 60 percent of the total cotton they consume from the collectively-run commercial firms.

But sometimes they cannot obtain the full planned quota of cotton, and have to purchase the balance at higher prices from cotton-growing areas.

Naturally, the commercial businesses are willing to market the retained cotton to local cotton mills at higher prices.

Chen disagreed with the opinion that the development of the township cotton mills should be brought under strict control, and held that the textile industry as a whole must be adjusted.

"The rural cotton mills, previously equipped with outdated facilities and technology, are strong competitors on the market now, contributing much to local revenues," the expert said.

Their success forces State-owned textile plants to update their rundown equipment and technology, and eventually spurs the development of the textile industry.

More than 35 percent of the total spindles in the State-owned cotton mills are outdated, which leads to serious waste of cotton.

The nation will have to take the following factors into account, if it decides to deal with the cotton shortages, Chen stressed.

The limited acreage under cultivation in China will affect the further growth of the cotton yield.

The nation, with a population of 1.13 billion, commands only 993 million hectares of cultivated land, and the per capita share of grain is less than 400 kilograms. It is going to be difficult to increase the cotton-growing area in the new future.

Also, it is impossible to solve the cotton shortage through drastically increasing the output of silk, linen, and wool, because their production cost is very high?

Cotton price rises over the past few years have given little indication that the textile industry can put up with a further rise in the production cost.

Today the domestic ginned cotton price of 7 yuan (\$1.3) per kilogram is very close to the world market price, and the advantage of cheap raw materials, which the textile industry used to enjoy, is vanishing.

Therefore, Chinese cotton growers cannot look for further cotton price increases in the coming years, and this may dampen their enthusiasm for planting this cash crop.

When asked about ways to tackle the cotton shortage, Chen Jian said that the textile industry should be geared to the chemical fibre market.

Last year chemical fibre output reached 1.47 million tons, or nearly 30 percent of the total raw materials needed by the Chinese textile industry, and ranking fourth in the world.

First and foremost, it is imperative to increase chemical fibre production, the researcher emphasized.

The nation will have to invest more funds to develop new strains of cotton, and strengthen the research of pesticide for the sake of preventing cotton worm and diseases, so as to improve the cotton output per unit.

The current per hectare cotton yield is about 830 kilograms, and some experts in the Xinjiang Uighur Autonomous Region have upgraded the cotton output to over 2,200 kilograms per hectare.

It is possible to raise the cotton harvest to more than 1,100 kilograms per hectare, the scientist said.

The government will have to implement the existing preferential policies to maintain the growth of cotton output.

He added that the nation should be cautious about importing cotton from abroad, and the textile industry should primarily rely on the domestic cotton market.

More Farm Production Bases Planned

OW2307082491 Beijing XINHUA in English
0601 GMT 23 Jul 91

[Text] Beijing, July 23 (XINHUA)—China plans to construct some 300 agricultural bases and related projects to support the production of quality and brand name farm products during the Eighth Five-Year Plan period (1991-95).

The Ministry of Agriculture recently announced that China invested over 518 million yuan (130 million U.S.

dollars) to develop some 481 high quality brand name farm products and to construct 205 production bases during the Seventh Five-Year Plan period (1986-90).

Over the past five years, the country constructed 686 production bases for quality farm products, according to today's ECONOMIC DAILY.

The production bases are mainly for grain, rare fruit and export-oriented farm products, including rice, rape, chinese gooseberries, tea, mushrooms and flowers.

The eight tea production bases established in Yunnan Province now have an annual export volume of over 1.3 million U.S. dollars.

Phenomenon of Clannishness in Enterprises Analyzed

91CM0437A Shanghai SHEHUI [SOCIETY]
in Chinese No 4, 20 Apr 91 pp 42-45

[Article by Yang Guan (2799 7070): "On Enterprises Becoming 'Clannish'"]

[Text] As the natural economy gives way to the commodity economy, the land-based clan is being gradually eroded. However in the past few years, a clannishness phenomenon is quietly emerging among enterprises. This is an adverse trend that has people puzzled. The rise of "job succession," "internal hiring," and "job matching" among enterprises in the early 1970s has opened caused of flood of tens of thousands of family members and relatives entering enterprises. Furthermore, some enterprise workers intermarry, thereby reinforcing the tendency toward enterprise clannishness through a network of connections either by blood or by marriage. The clan influence is felt in every part of the enterprise. The complexities of the web of relationships and disputes within enterprises not only baffles enterprise leaders but also has given rise to a host of problems for the enterprises. Given these circumstances, identification of the causes and solutions of enterprise clannishness should be a topic in sociological studies.

I. The Clannishness Phenomenon and Enterprise Problems That Give One Headaches

In a survey of 14 state-owned industrial enterprises in one locality, the total number of workers rose from 2,154 in 1983 to 4,006 in 1989, an 86 percent increase. Of these workers, those who were directly or collaterally related to one another jumped 4.75-fold, from a previous 251 to 1,422 in 1989. As a proportion of the total number of employees, workers who were related to one another accounted for 33 percent in 1989, up from 11.65 percent in 1983. People who were directly related, such as husband, wife, parent, or sibling, comprised the vast majority, or 92.2 percent, of the 1,422 related workers. Collateral relatives, including uncles, aunts, and cousins, made up 7.8 percent. There is also a network of workers related to one another by marriage. This group also contributes significantly to the clannishness phenomenon.

In addition, there is a tendency for clannishness to spread to organizations, groups, and institutions. Surveys show that of the 4,051 workers in 46 party, government, and mass organizations directly under a certain province, 719 people, or 18 percent, had relatives working in the same unit. Almost 60 percent of them were married couples.

If this is the situation in state-owned enterprise and institutions, which are governed in strict accordance with the state personnel and labor management system, one can imagine how much worse things are in collective enterprises, particularly township and town enterprises.

—There are networks upon networks of connections, and interpersonal relations are complicated. According to some plant directors (managers), there are three difficulties in managing interpersonal relations in enterprises these days. The first is hiring. Who does one hire? From where does one hire? These questions require a lot of hard thinking. If you are the slightest bit careless, you will offend some people. The second difficulty is punishment. In a factory, when an employee violates factory discipline, he should be punished. That should be routine in factory management. However, when you discipline one individual, a host of others will be drawn into the matter, from parents and spouses to children, siblings, and other relatives. You may end up with dozens of people pleading for him or making a scene. It is really a tricky problem. The third difficulty is decision-making. For better or worse, family members exert more influence than other people. Decisions are often biased by sentimental ties. If a decisionmaker does not let sentiment influence his decisions, he may wind up with other troubles not related to the policy in question. Clannishness has led a handful of dishonest enterprise leaders to abuse their authority and practice nepotism. This has bred discontent among other employees and has made it hard to ensure stability in the enterprises.

—Lack of job competition has caused the caliber of enterprises to decline. According to statistics, people who landed a job in an enterprise through "job succession," "internal hiring," and "job matching" accounted for over half of the Chinese labor force and have gradually become the backbone of factory production. However, their caliber, particularly that of young workers who entered the enterprises since 1980 is cause for concern. Most of these young workers are "educated urban youths who had worked in the countryside and mountain areas" or are senior or junior high graduates who were unable to go on to college. Even though they had absolutely no pre-employment job training, they managed to land a job in an enterprise by taking over the job of a retiring parent or through arrangements made by the parent. Their educational and technical qualifications are relatively poor. Moreover, some enterprises only pay lip service to the job training, hiring through examination, and contract employment system of recent years, and continue to draw most of their workers from the children of their employees. The employment contract system notwithstanding, a worker, once hired, can look forward to long-term employment provided he does not make a major mistake. This fact has done much to weaken the competition for employment and has encouraged dependency. Application of cottage-industry management methods to employment issues impedes the deepening of a sense of competition and hampers the tapping of human potential, with the result the overall quality of enterprises is lowered.

—The circulation of manpower is irrational and talent is grossly wasted. One enterprise recruited five college

graduates from out of town in just one year. This should have been a good thing. However none of the five graduates had skills that matched the requirements of their jobs. Why then were they hired from outside? The reason is quite simple: to look out for relatives. Then there is the case of the female model worker in a textile mill. She was doing very well in her unit but gave up everything to join the enterprise where her parents were working as a fitter, an occupation with which she was unfamiliar. These two examples involve people who are related to each other. If you are not related to somebody by blood or marriage or have some other personal connection, you will have a hard time finding a job in a unit of your choice, no matter how competent you are. Clannishness is driving some people to go where their family members are, regardless of their specialty. On the one hand, enterprises in dire need of people with professional skills cannot keep or attract qualified personnel. On the other hand, qualified personnel have been joining enterprises that do not have jobs suited to their specialties. This abnormal kind of mobility makes things more difficult for both sets of enterprises. Furthermore, the circulation mechanisms of qualified personnel are still imperfect, and with life-long employment still the main tool of labor management, self-taught workers who find job through parental arrangement discover that they cannot put their talents to use in their jobs. They are left to sink or swim of their own accord.

—Family fortunes wax and wane with those of an enterprise. The direct consequence of enterprises being staffed by family members is the absence of self-regulatory mechanisms. When the enterprise is operating smoothly and the economy is humming along, the problem is not very obvious. But once tough times set in and an enterprise suffers declining profits and is forced to suspend its operations, the families are shaken to the core. Imbalances within the group will necessarily affect society, putting it under new pressure and intensifying the elements of social instability. Earlier, the economy lost its balance and profits plummeted. A number of enterprises were affected, drastically cutting the incomes of some families. Since all family members worked in the same enterprise, some could not even maintain themselves at the subsistence level and this put the government under enormous pressure. The authorities have adopted some relief measures, but these are nothing more than a bandage and offer no fundamental solution to the disparity between income and consumption. Some people have been driven to crime, thereby endangering society.

—Family quarrels may develop to the extent of disrupting the normal order in an enterprise. All families have quarrels and arguments, but when an argument occurs between family members working in the same enterprise, it has a way of growing rapidly. For instance, in-laws may quarrel over their children and children may quarrel over in-laws. In addition, there

are disputes between and wife over one another's parents, siblings, or other relatives by blood or marriage. More than the "clan" is involved in conflicts of this kind. Scientific research, production, management, and other aspects of work in an enterprise will also be affected. The result is that people undercut one another, argue back and forth, and even inflict bodily harm upon one another, and get into other problems that disrupt the normal order in enterprises. Such "clannish" conflicts have a way of enlarging and are not as easily solved as the average family quarrel. The impact of the conflict is profound and may continue into the next generation to become a hidden barrier to enterprise development.

II. The Main Causes of Clannishness

Nothing exists in a vacuum. For something to happen, there must be a combination of external and internal factors working together. Similarly, the emergence of enterprise clannishness has much to do with a particular set of social, political, and economic circumstances and is the result of the interplay between the enterprise's internal mechanisms and external social environment. Essentially these are the major factors:

First, on the policy level, the direction of the national employment policy is a factor behind the rise of enterprise clannishness.

To ease the employment difficulties accumulated over a long period of time, the state has formulated a series of employment policies including "job succession upon retirement," "internal hiring," "job matching," and "contract employment." These steps, it should be said, have proved highly instrumental in alleviating short-term employment difficulties and has achieved significant social benefits. However, what makes sense in the short run does not necessarily make sense in the long run. It is precisely the mandatory nature of these policies that has accelerated the trend toward clannishness among enterprises. Given normal employment channels, the worker should have the freedom to choose his job while the hiring unit should also be free to hire whom it wants. There should be an equal relationship between the worker and the hiring unit. Because of policy regulations though, the worker has to be content with whatever job there is in order to put food on the table, no matter how unhappy he may be with the job. On one hand, because of serious unemployment, other units are too hard pressed to find jobs for the children of their workers to be able to worry about other people. With family enterprises acting in this manner, the result is that all employment avenues are closed; there is no entry and no exit. On the other hand, hiring units have no freedom of choice when it comes to the selection of workers. It must take people it does not want and give up people it would like to hire. This is because for every outsider an enterprise hires, it loses one vacancy in the internal quota and the children of its workers will also lose a job

opening. As far as the enterprise and workers are concerned, this is the most practical issue. To avoid problems, the best way is to hire the children of one's workers. That is the way to ensure peace and quiet. Objectively speaking, such employment practices are the artificial factor behind the emergence and development of enterprise "clannishness."

A second major cause of enterprise "clannishness" is the internal factor of the centripetal force of welfare guarantees offered by enterprises. The welfare guarantee system run by enterprises has served to increase a person's dependency on his unit. Within the enterprise, welfare involves a relationship of rights and obligations to some extent. How much welfare a person is entitled to depends not only on his obligations, but also on the obligations of his family. Besides seniority and the other usual requirements, whether or not a person's spouse also works in the same enterprise and whether he is the child of an enterprise worker are major considerations as well. Take housing allocation, for example. If two people have the same amount of seniority, the person who has a spouse or parent working in the same enterprise is treated preferentially. The worker whose spouse works somewhere else does not enjoy equal treatment. Neither does the "outsider." As another example, when a couple working in the same enterprise wants to send their children to a nursery or school or seek medical treatment, they do not have to pay anything. Their "single" counterpart, on the other hand, has to pay half the fees. Driven by self-interests, many couples working in separate units wrack their brains to find a way to work together. Young workers contemplating marriage would first look for someone right where they work. Children working away from their parents also do their best to get transferred to their parents' units. The result is increasing clannishness. In addition to self interest, another reason for the increase of clannishness is the fact that the existing housing system, record management system, household registration system, and insurance system all impede the free circulation of manpower. There is no social support system and the social security is less than perfect. These conditions outside the enterprise have served to reinforce the centripetal forces. Acting out of self-interest and a desire to avoid uncertainty in employment and risk in life, most people are unwilling to move around, and thus make it possible for clannishness to become entrenched.

A third factor behind the increase in enterprise clannishness is the traditional mentality.

Psychology is the way people look at and feel about something based on a combination of social history and reality. Carrying the stamp of history and reflecting reality, psychology often determines an individual's attitude toward something. People's occupational outlook, that is, their attitude toward a job, is similarly influenced by psychology up to a point. Contemporary occupational outlook demands that one makes one's home wherever one is, that "one goes where one is needed most by the fatherland," and that "one goes where one can utilize his

talents to the fullest." Be that as it may, few people really possess this kind of occupational outlook or look for a job based on this view. While there are policy and institutional reasons, another important reason is the traditional mentality. Constrained by history, the traditional occupational outlook fails to understand the social nature of employment on the macroeconomic level. In addition, the natural economy confines people to a narrow range of jobs. One is encouraged to stay in one job for life and take over one's father's work. "When one's parents are still alive, one is not suppose to travel far from home." People are content with making things at home, thereby perpetuating the "one family, one household" mode of production, the effects of which are still being felt today. Even in enterprises where the production socialization is advanced, the family-style mode of production still is widely followed. In such activities as putting together the optimum work team and project contracting, the hiring of relatives and contracting of family members are extremely common. Thus, one of the direct ideological roots of enterprise "clannishness" is that this traditional psychology has become the basic guiding thought in employment.

Fourth, the constraints of the living environment are also a factor in the emergence of enterprise "clannishness."

The living environment of enterprise workers refers to both the geographical environment and the employment environment. Looking at the geographical environment, enterprises in some remote border areas and in hinterland areas are geographically remote. They have problems recruiting workers and their workers have problems finding marriage partners. They have few contacts with the outside world. Yet the objective reality is that the enterprise must try to survive and thrive. A majority of its workers are therefore the children of its workers, most of whom have to find a wife or husband from among their colleagues. As a result, the enterprise becomes more and more clannish. The so-called employment environment refers to the way people are affected by differences in jobs. There are two possible scenarios here. One features enterprises of high social status, high-tech enterprises, enterprises of the "three capital sources," foreign trade enterprises, and so on. These enterprises are better endowed. They have higher earnings and are quite popular among job seekers. Because of policy biases, most of the children of their workers are happy to join them. The second scenario features enterprises in which conditions are poorer. The work is hard and their social standing is low. Examples include welfare enterprises; environmental, public health, and construction enterprises; and civil administrative units providing special services. Since these units have trouble recruiting workers from outside, most must look inward for labor. The workers of these enterprises also have greater trouble finding a spouse from among society and so tend to search within the enterprise. In this way, the constraints of the living environment have contributed greatly to the transformation of enterprises into "clans."

III. Some Ideas On Reducing Enterprise "Clannishness"

The emergence of enterprise "clannishness" is the result of internal and external factors working together. To a certain extent it is objective. If, instead of looking at its social impact in the short run, we examine its long-term trend from the perspective of development and society, we know serious social problems will arise from its accumulated shortcomings. It is imperative, therefore, that we soften the impact of enterprise clannishness and arrest its further development using political, economic, and legal means. At the moment we should consider tackling the matter in these ways:

First, we should adjust employment policy by combining state regulation and control at the macro level with worker's freedom of choice in employment and the hiring unit's freedom of choice in hiring. The employment policy now emphasizes self-assimilation by enterprises almost exclusively. That should be corrected. Instead, special agencies in charge of labor management should work out macro planning objectives based on the national industrial structure and development trends and, in light of those objectives, provide training at different levels, job counseling, and recommend people for jobs. Workers should be free to choose among different jobs and participate in training. Enterprises, for their part, may evaluate and hire the people recommended by labor agencies in light of their own development goals and specific hiring needs. In this way, we can arrest the trend among enterprises toward clannishness resulting from self-assimilation of workers, as well as their habit of providing jobs for everyone. Moreover, workers will have the freedom to choose a job through multiple channels within the bounds of the national plan. Enterprises too will have more freedom to choose whom they want to hire. As a result, competition in social employment will be effectively strengthened. Enterprises will be of a higher quality and better able to survive and thrive.

Second, we should improve the social support and security system and expedite the rational circulation and sound organization of labor. How good the social support and security system is determines to a large extent the rate of labor circulation. The labor circulation rate refers to the number of jobs a person holds and for how long. It depends on whether he is able to utilize his talents, whether living conditions can be ensured, and the restraints of personnel management. Right now, China is not yet economically strong overall. Its social security system is less than perfect, which holds down the rate of manpower circulation considerably. For instance, employee housing is usually owned by the units these days; the social ownership of housing is very low. As long as housing remains a problem, the worker is not going to act irrationally. Next take the record management

system, which reduces qualified personnel to de facto possessions of their departments. As long as a department refuses to release records, normal mobility will be impossible. Thus the record system is a barrier to increased freedom on the part of workers in choosing their employment. Similarly, the existing residential registration system is tied to many things in daily life. Movement within an area usually presents no problem. Difficulties arise however, with interregional transfers. To encourage the reasonable circulation of manpower; foster the sound distribution of labor, particularly the flow of manpower from economically developed areas along the coast and large and mid-sized cities toward remote border regions and economically backward areas; and alter the family-centered occupational outlook, we must reform the institutions and create a social environment favorable to manpower mobility. Moreover, we must make communities better able to provide a comprehensive range of services and give such services a legal and institutional basis as a means of expediting improvement of the social support and security system.

Right now, enterprises experience varying degrees of ease or difficulty in hiring. Workers flock to some enterprises while shunning others. There are imbalances in employment. On one hand, the number of people waiting for jobs in society is increasing annually. On the other hand, some enterprises have trouble attracting workers. In addition to differences in work conditions, social status, and other secular concerns, wages are also an important factor. We should say that wages are directly proportional to an enterprise's profit margin. The good wages offered by high-tech and foreign trade enterprises are a function of the quality of their products. In contrast, welfare and special service enterprises may generate high social benefits, but their economic benefits are less than satisfactory because they are constrained by their service nature. In adjusting the employment policy therefore, the state should consider differences in incomes between the various occupations. Enterprises with high social standing, good work conditions, and satisfactory profitability should be required to impose certain income limits, while income subsidies should be offered to workers in enterprises that offer many social benefits but involve hard work, poor working conditions, and have a lower social standing, in order to encourage people to engage in hard work and go into special services. This is something that should be achievable under socialism. Furthermore, workers should be educated in the correct occupational outlook to overcome their prejudices. A respect for workers in special services and hard work should be cultivated across society. These workers should be given every preference and assistance in welfare, social intercourse, and societal life in order to attract more people into those areas of work and promote the rational distribution of manpower.

Cautious Arms Use Urged

9CM0403C Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 255, 1 Apr 91 pp 62-63

[Article by Ma Feng-ming (7456 7685 7686): "China's Military Is More Cautious in Use of Arms Against Taiwan"]

[Text] The 20 March issue of the Chinese Communist newspaper JIEFANGJUN BAO gave front page coverage to its report on the 17 March visit of Jiang Zemin, general secretary of the communist party and chairman of the Central Military Commission, to Hunan province to inspect troops stationed there and to visit a military academy. The report gave prominent coverage to a particular idea which Jiang Zemin repeatedly stressed: "One of the most important elements in the plan to modernize the military involves the effort to achieve technological progress and train a group of politically qualified and highly skilled scientists and technicians who can carry us into the next century." The report stated that during his tour of the National Defense University, Jiang Zemin stated that the many instances of limited warfare, (especially the more recent ones), have taught us a lesson, which is that modern warfare has now become a war of high technology. It involves three-dimensional warfare, electronic warfare, and missile warfare. If you lag behind in these areas, you will be forced into a passive position and will take a beating. Under modern economic conditions, electronics is one of the industries that will receive top priority for development.

From this it is apparent that the "recent limited war" has caused the Chinese Communists to stand up and take notice, and it has made them realize that "to lag behind means to be forced into a passive position and take a beating." While inspecting the troops, Jiang Zemin also stated that "military development during peacetime must concentrate on the creation of a small, highly skilled military."

On the other hand however, it is reported that when the Central Military Commission was discussing the lesson learned from the Persian Gulf war, even though many people mentioned the fact that the allied forces were able to achieve great success through the use of high-tech weaponry, in the end Yang Shangkun stated that "it looks like we still need to stick resolutely by comrade Mao Zedong's doctrine of people's warfare."

For this reason, the Gulf war will probably have an impact upon the newer generation of leaders and cause them to be alert to the new situation, but the older generation of leaders is apparently still struggling under the burden of Mao Zedong's doctrine of "people's warfare." It appears that the future direction of the military will be a matter of controversy.

Beginning To Build an Aircraft Carrier

Worldwide tensions are easing. For the mainland, its traditional hypothetical enemies, the United States and the Soviet Union, no longer represent a threat, so would it not be a good idea to take advantage of this opportunity to accelerate military modernization? The Chinese Communist have other worries however. The banner of communism must not fall and the light of the socialism must not be allowed to die. In order to deal with domestic and international necessities (especially after the "4 June Incident") the Chinese Communists have made efforts to strengthen the military a high priority. The Eighth Five-Year Plan and Ten-Year Development Plan that were passed during the Fourth Plenary Session of the Seventh National People's Congress put high priority on protecting agriculture and national defense while cutting back expenditures in other areas.

Construction on a 2.3 billion renminbi aircraft carrier has now begun. The designing of these aircraft carriers began 10 years ago and the technical proofs were completed just last year. The intended use for this aircraft carrier is clear. It would change the entire situation in an attack against Taiwan; no longer would any attack be limited to a frontal assault. Not only would the aircraft carrier have great deterrence value, the most important thing it is that it would add a three-dimensional element to the attack. During the Gulf war, the allied military forces used highly accurate cruise missiles. Even though there had been many reports on the accuracy of those missiles before the war, it was not until this war that people were able to see just how effective they are. This has given Chinese Communist military circles pause: if Taiwan had highly accurate cruise missiles, how well would we be able to protect our expensive aircraft carrier?

Buying Foreign Technology To Improve Equipment

The Gulf war has shown people that in order to win in future warfare, you have to have advanced technology and a lot of money.

In these two areas, the Chinese Communists are deficient. Although the continuing economic slump in the mainland appears to be turning around, the deficit last year still reached 24.2 billion renminbi even though the publicly announced figure was only somewhat more than 15 billion. They have announced their attention this year to hold the deficit under 14 billion. In fact, they will be doing well to hold it under 18 billion.

Although the mainland already has atomic bombs, satellites, missiles, and nuclear submarines, all these weapons have serious performance problems. The military has proposed spending an extra three billion renminbi every year on research, development, and improving existing equipment. When the Air Force cooperated with Italy to improve the performance of the electronic systems on its Q-5 attack aircraft, the military realized that it could take a shortcut in its effort to

overcome the Air Force's operational disadvantage vis-a-vis Taiwan by buying advanced technology from abroad and producing high performance aircraft. During the 1970's, the navy manufactured a large number of submarines and guided missile ships. The slogan at that time was "submarines as the foundation, guided missiles as the top priority." In recent years, construction has switched to destroyers. This offensive-oriented ship will serve as the main force naval ship in any future warfare. In terms of naval equipment and quantity, Taiwan is at a clear disadvantage.

An Internal Military Report

The Chinese Communists have always taken great pride in their army because they have always felt that the real secret to victory in warfare lies with the army. Thus after the outbreak of the Gulf war, when the Chinese military reported on the progress of the war there was great praise for the Iraqi troops as they huddled in their bunkers to avoid the allied bombing attacks. The Chinese military firmly believed that Iraq would deliver punishing blows to the allied forces once the ground war got started.

The Chinese Communist military establishment had never imagined that the Iraqi forces would collapse so quickly. To a large extent it was the air attack, which the military had belittled as not being a factor, which brought this result. After summing up the lessons of the Gulf war, the Chinese Communists came to the realization that it would not be as easy as they had thought to invade Taiwan. No doubt they will be more careful in the future before speaking of using military force against Taiwan.

Researching Taiwan's Military Capabilities

The Gulf war has also enlightened the Chinese Communist military establishment in another way. It has spurred them to greater efforts to study the enemy's military capabilities. In the future the Chinese Communists will certainly put much more effort into studying the military capabilities of Taiwan, especially their weapon systems.

The Gulf war has shown that with advanced technology you do not need a large number of troops to maintain air superiority. If Taiwan were equipped with the high-tech weaponry of the Gulf war, how useful would "people's warfare" be to the Chinese Communists? Wouldn't talk of final victory being dependent on ground forces then become nonsense? Furthermore, in view of Taiwan's economic strength and the degree of development of its electronics industry, it is apparent that Taiwan is capable of developing high-tech weapons and carrying out electronic warfare.

At the very least, the Gulf war has jolted some leaders within Chinese military circles, and relations between the two sides of the Taiwan Strait will ease as Chinese Communists speak less and less of "using military force against Taiwan."

Reasons for Increasing Military Funds

91CM0403D Hong Kong CHING PAO [THE MIRROR] in Chinese No 165, 10 Apr 91 p 42

[Article by Ch'en Shao-Pin (7115 0783 6333): "Inside Story of China's Decision To Increase Military Funds"]

[Text] In early March, the Chinese Communists called an enlarged meeting of the Communist Party Central Military Commission in Beijing. This meeting was attended by leaders from the various military regions, military services, and military academies. Leaders from the State Planning Commission and the National Defense Science, Technology, and Industry Commission also attended. The theme of the meeting was how to strengthen military construction and accelerate the modernization of equipment in order to assure continued success with socialist reconstruction. The meeting lasted for two-and-a-half days, and it is reported that many strong opinions were voiced there. The three military arms each argued strongly for increased emphasis upon modernization of strategic and tactical weaponry. During the meeting, responsible people from each of the three military arms as well as various military services reported on the progress of military construction and the development of military equipment. Yang Shangkun also spoke at the meeting.

Deng States, Without Military Power China Has No Say in World Affairs

Yang Shangkun said, "I want to tell all of you comrades some news: the central leadership has decided to appropriate more than 30 billion extra yuan over the next five years for research and production of military equipment and military facilities. The Politburo discussed the matter over and over and came to the unanimous conclusion that it is extremely necessary to appropriate extra money. We also consulted with Deng Xiaoping regarding this matter." Comrade Xiaoping said, "Yes, very good. We are a big country with a population of 1.1 billion, but if we do not have a strong economic base, and we do not have a relatively well-equipped and modern military force capable of resisting invasion, threat, and interference, we will not have any say in world affairs and we will be pushed around by others. A China that is under the leadership of the communist party does not bully weaker countries, nor will it allow itself to be bullied or intimidated by any alliance of powerful countries. This point has been made clear to all the countries around the world. We badly need money to carry out our socialist reconstruction, but no amount of good will on China's part can change the reality of international events. When someone wants to pick on you, what do you do about it? When someone has his hands upon your throat and is ready to choke you, what do you do about it? When someone is always spouting a lot of high-sounding rhetoric and interfering in your country's internal affairs, what do you do about it? The only thing you can do is to strengthen yourself." Yang Shangkun said, "The central leadership has already

made up its mind, so you are sure to get your money, and there will be no problem securing personnel or technology, so from now on the most important thing is to continue doing research and experimentation in order to improve our ability to carry out counterattack with strategic and tactical nuclear weapons. We must work even harder to develop aircraft as well as ground-to-air, air-to-air, air-to-ground, and air-to-sea defense systems. We must step up efforts to build more ships for our coastal and blue-water fleets in order to expand both our offensive and defensive capabilities. We must also step up efforts to improve the nighttime operational capabilities of our army and to improve our mechanized long range firepower."

Yang Shangkun Reveals China's Military Strength

During the meeting, Yang Shangkun revealed the status of the weaponry of the various military arms and services. He said, "China's current strategic and tactical nuclear weapons are not at all inferior to those of the United States and the Soviet Union, but because China does not pursue an expansionist foreign policy or export nuclear weapons, we lag far behind the United States and the Soviet Union in terms of quantity. Nevertheless, our arms are sufficient to deal destruction to any country that should start a war with us." He acknowledged that China's small-scale tactical nuclear weapons are about five years behind those of the United States and the Soviet Union, and he revealed that while China's ground-based air defense systems are relatively strong, the ability of its air force to carry out long range counterattacks and ground attacks is relatively weak. Yang Shangkun said, "China's army is strong enough to deal a devastating blow at any time and in any place to anyone rash enough to start a war, and our ground-based fire power can go head to head with any alliance of countries; the weak link is our mechanized operations."

Chinese Communists Decide To Step Up Military Maneuvers by the Three Military Arms

Liu Huaqing [0491 5478 3237], the Central Military Commission Vice-Chairman, also spoke at the meeting. He said, "In the Mideast war the United States used diversionary tactics, concentrated overwhelming force, split the enemy apart in order to overrun it, and attempted to win the conflict in a single blow. This is quite similar to what the United States did in the 1950's when it landed at Inchon. Statistics show that the allied forces used over 200 times more air power and over 30 times more ground power per unit of time in the Mideast war than was used in the battlefields of Korea. There was a wide gap in military power between Iraq and the allied forces, so it seems that we had been overestimating [sic] U.S. military strength and the quality of its personnel. However, we predicted before the war that it would be a short, one-sided affair, which was quite accurate." (Note: See the February issue of this publication, "Yang Shangkun Speaks on the Mideast War and the Tasks of the Three Military Arms.")

Liu Huaqing made two announcements during the meeting. First, in the future there will be regularly scheduled simulated combat exercises as well as exercises with live ammunition. It is absolutely necessary that the three military arms be capable of responding immediately to emergencies, and of winning all confrontations. Second, he announced the decision to provide material rewards and promotion opportunities to military personnel and scientists involved in national defense research.

Li Peng, Military Join Forces

*91CM0403B Hong Kong KAIFANG [OPEN] in Chinese
15 Mar 91 pp 6-8*

[Article by Chao Yuan-ming (6392 0337 2494): "Li Peng and the Military Join Forces"]

[Text] Spring has arrived in Beijing, and with it the joy of springtime. The clever youth have come up with a new phrase—"Li Peng is like a rock in a latrine—stinky and hard!"

Of course, this joke can only be whispered. The people in Beijing understand that "the most despicable of all the premiers in the People's Republic" now has a secure position. Li Ruihuan made this fact clear to Japanese reporters when he told them that no one at the rank of vice-premiere or higher would be transferred this year. Those capable of reading between the lines knew immediately that this phrase also meant "much less would the premiere lose his job."

Li Peng pulls the fat out of the fire; the military takes notice.

A high ranking cadre in Beijing with access to inside information told me that Li Peng has been able to shore up his previously unstable position because he has gained favor with the military. The reason is very simple: he is the only person within the inner circles of leadership who has maintained a consistent and resolute position regarding the action to "quell the counterrevolutionary rebellion" two years ago this June. Under his forceful advocacy, some of the old founding fathers among the central leadership and the military finally agreed to take advantage of the Persian Gulf War to put activists from the 1989 democracy movement on trial. As it turned out, it was a good move, because it has had no effect upon the gradually improving relations with the West, and all sorts of loans continue to come in. In this manner, the old military leaders who had looked down upon Li Peng and suspected him of a low IQ, now began to look at him in a new light.

The Fang Lizhi model previously used by high level leaders for dealing with the democracy movement falls into disuse.

I asked this high ranking cadre if he meant to say that there were disagreements within the highest circles of leadership in the Communist Party regarding the "June

4th" massacre. He said that although in Beijing they talk tough, the social and economic aspects of the "June 4th syndrome" (including the negative effects of the sanctions imposed upon China) were already being felt in the mainland, and it was directly affecting the prestige of high level communist leaders.

He was aware that Deng Xiaoping, Yang Shangkun, and Yang Baibing all felt some regret about the June 4th Incident. Of course, it was not because the pangs of conscience were bothering them, but because they were finding out that by killing a few "rioters," they had gotten themselves into even deeper trouble and had begun to wonder whether it was worth it. The attitude seemed to be "if we had only known...." At one point, the "mainstream" opinion among high level leaders in the Chinese Communist Party was that they should follow the "Fang Lizhi model" for dealing with activists from the 1989 democracy movement. In other words, some "troublesome figures" who were difficult to deal with could be sent into exile abroad, which would enable China to maintain internal stability while "reducing pressure"—that is, pressure from the West.

Li Peng prevails against conventional wisdom; "I'll fight to the end!"

Nevertheless, Li Peng was able to prevail against conventional wisdom. At one meeting he roared that if the Party were to yield on this point, everyone present would be finished! Once he had spoken, no one argued against him. Anyone who had a hand in the suppression understood that the human flesh that they had eaten would have to be digested as quickly as possible and could not be spit back out. No matter what the overall situation at home or abroad, their fates were inextricably linked with "June 4th."

Not only was Li Peng's position resolute in public, but he continued to revel in his determination after he returned home. He once said to his son, "I've already decided to fight this out to the end. The worst that can happen is I'll end up like your grandfather!" (Note: Li Peng's biological father, Li Shuoxun [2621 4311 0534] was executed by the KMT for his activities as a student leader.)

Deng Pufang, a mysterious figure in the June 4th Incident, lied about the military situation.

It is especially important to point out that there was one other person who had even more authority than Li Peng regarding the choice of the Chinese Communists to deal harshly with 1989 democracy movement activists and others involved in the movement (including Xu Jiatun [6079 1367 1470], Luo Haixing [5012 3189 2502], etc). That person was Deng Xiaoping's eldest son, Deng Pufang [6772 2613 2455]. Knowledgeable sources have revealed that Deng Pufang committed an unforgivable "error" during the "June 4th Incident"—he told lies about the military situation. After the decision to send

troops into the capital to suppress the democracy movement was made, Deng Xiaoping was in a very bad mood, and he refused to see anyone except for his own sons and daughters.

High-level staffers who normally had access to Deng Xiaoping now had to go through Deng Pufang if they wanted to get any ideas or opinions across to Deng Xiaoping. Deng Xiaoping had complete confidence in his son, but Deng Pufang, just like his father, is a man of very strong opinion, and when people came to him with viewpoints that differed from his own, he simply prevented those viewpoints from reaching his father, so most of the information and opinions that reached his father were very subjective.

A well meaning friend discusses three options.

A good friend of Deng Pufang's, after carefully observing the situation all around Beijing, spoke with Deng Pufang about three different options for dealing with the student movement. The best plan called for Deng Xiaoping to appear on television in order to promise more political reforms and persuade the students to return to classes. A mediocre plan called for officials to be sent to the square to talk with the students and persuade them to withdraw from the square as soon as possible. The worst plan called for the army to open fire upon the students and control the situation. This old friend spoke frankly with Deng Pufang in hopes that he would act properly at the key moment, and Deng Pufang's friend stated that if the best plan were put into effect, people would remember and praise Deng Pufang for generations; if the mediocre plan were put into effect, people would neither blame or praise him; and if the worst plan were put into effect, people would revile him for generations.

However, Deng Pufang refused his friend's advice. He felt that the position taken by the April 26th editorial in the People's Daily was not open to bargaining, and that there could be no retreat. In reality, when the students adopted slogans calling for an end to corruption and demanding that Kanghua Corporation be called to account (note: Kanghua was a government run company in which Deng Pufang had once served as chairman of the board; the company has already been disbanded), it assured that Deng Pufang would be even more resolutely in favor of violent suppression of the democracy movement than his father was. In order to assure that the plans for violent suppression would not become public knowledge, Deng Pufang went personally to the Public Security Bureau and had them arrest his good friend.

Deng Pufang betrays friend, attempts to revive Kanghua.

Although the violent suppression of the democracy movement was successful, blood on one's hands is, after all, an ugly sight. Not long after the "June 4th Incident," it was learned that Deng Pufang had gotten married. He is paralyzed from the waist down, however, and incapable of consummating a marriage. Some people said that "he got married to have somebody by his side when

he has nightmares." Recently there have been signs that people are working to reverse Kanghua Corporation's fate, and some projects which were to have been cancelled as a result of the crackdown against Kanghua have been quietly brought back to life. This would seem related to the fact that Deng Pufang is once again finding success in the political field. There is now a story circulating about how a delegation from the United States claiming to be guests of Deng Pufang checked into a hotel somewhere in eastern China where foreign exchange is used to pay the bills, and when they left they were not required to pay a cent. The hotel sent a telegram to Beijing to inquire about the situation, and it did indeed turn out that they had been invited by little Deng.

Little Deng is taking advantage of old Deng's prestige to throw some weight around, causing observers to lament, "when unstable people like that are able to have their way around this country, it's truly a disaster."

A doctor has stated that Deng Pufang's disease is quite advanced, and he does not have long to live, so it is hard to say what grief he might cause in the future.

The power of the military expands; Yang family prepares to support Li Peng.

The longer Li Peng retains his position, the safer that position becomes due to the support of the military. After the "June 4th Incident," Yang Shangkun and Yang Baibing carried out a ruthless purge of all their opponents. Yang Baibing personally took over supervision of the program of improvement of rectification, and at the same time he transferred large numbers of military officers to new posts. Party cadres at the group army level and above underwent especially thorough reorganization. Senior military leaders were worried that if they did not bring democracy movement activists to trial, opposing forces within the military would rise up, and the danger existed that they might lose control.

There are indications that the power of the Chinese communist military has already spread to other areas. A scholar who is quite well known abroad and is currently doing research in the United States told me that when he went back to Beijing the year before last to visit relatives, people from several government departments beat a path to his door in their eagerness to establish connections with him. He was shocked when the son of a big general said to him disdainfully, "don't pay attention to those 'civilian types,' just work for us 'military people'."

The scholar thought it was a joke, but in fact the big general's son was quite serious. The most subtle and meaningful part of the exchange was the general's son's haughty tone of voice.

A military clique is presently forming around Yang Baibing.

It is reported that a military clique, with Yang Baibing at its head, is now forming, and that its influence has already spread to Chinese communist policy making levels. This clique may very well become the power behind the scenes which actually rules China in the future. Key members of this faction include:

Wang Hai [3769 3189]—general, airforce commander, age 66.

Han Huaizhi [7281 2037 2535]—lieutenant general, deputy chief of General Staff, age 69.

Zhang Lianzhong [1728 6647 1813]—lieutenant general, commander of the Navy, age 60.

Wang Chengbin [3769 2052 2430]—lieutenant general, commander of the Beijing Military Region, age 63.

Zhu Dunfa [2612 2415 3127]—lieutenant general, commander of the Guangzhou Military Region, age 64.

Zhang Gong [1728 1562]—major general, political commissar of the Beijing Military Region, age 56.

All the members of this military clique are key members of the Chinese communist military establishment. Apart from Yang Baibing and Han Huaizhi, all of the others are between the ages of 55 and 66. Most of them maintained a resolute position regarding the action to "quell the rebellion," and they are strong supporters of the party. They hold a very hard line attitude on most questions, especially the issue of Taiwan.

A personal note on Yang Baibing—his original name was Yang Shangzheng

Finally, I would like to mention a little known fact—Yang Baibing's original name was Yang Shangzheng [2799 1424 2973]. His brother was named Yang Shangshu [2799 1424 6615] (self-styled Angong [2542 0361]), he worked together with Wu Yuzhang [0702 3768 4545] to organize an underground party in Sichuan Province during the revolutionary period of the 1920's, and they participated in violent activities. After these activities failed, he was arrested and executed by Chiang Kai-Shek. In order to take revenge for his brother's death, Yang Baibing, with the guidance of his cousin Yang Shangkun, fled to Yanan.

'Underground' Economy Viewed

91CE0528A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 13, 1 Apr 91
pp 27-28

[Article by Chai Sung-lin (2693 2646 2651): "Critical Analysis of Taiwan's Underground Economy"]

[Text] Some people conceal their economic activities to avoid taxation or government controls, so that they will not come to the attention of government statistical offices or financial sectors, escaping taxation or restrictions of government controls. Economic activities of this type are neither reported or recorded, making up what people generally call the underground economy.

Causes for the Underground Economy To Form

Underground economy has come about for two reasons: the desire to avoid taxation and the desire to avoid controls.

The main reasons for wanting to evade taxation or to engage in smuggling are:

1. Dissatisfaction with tax laws or the tax system, as it only gives consideration to collection, and violates the principles of social fairness and justice. Some people who have made huge profits and amassed fortunes do not bear any tax burden, while the tax burden is only on those who work hard. According to statistics of the financial departments, Taiwan's main source of tax revenue, the comprehensive income tax, show that in 1989, as high as 76.22 percent was from the taxation of salaries and wages, 4.44 percent was from business profits, 1.11 percent was from professions, and to 0.8 percent was from properties. All other taxed incomes was too small to matter. It shows that the income tax is a tax singularly levied on the incomes of the hardworking sector.

2. Changes in the society, while government departments adhere to outdated ideas, while legislation languishes, and while laws that should be revised are not revised, and new laws that should be enacted are not enacted.

3. People's belief that government spends most of its funds inappropriately, using precious resources in rather senseless ways, or they see many instances of wasteful expenditure, so that they are unwilling to foot the government's bills. This leads to tax dodging and smuggling.

4. Lack of personal integrity among personnel in government departments and lax discipline causes people to lose their respect for government personnel and their trust in them. This in turn results in the government's loss of public authority in the execution of its public duties. Banding together by officials and civilians to conduct underground economic activities are now frequent occurrences.

5. A debased mentality born of the poverty of cultural upbringing fosters a lifestyle in which people only care for their own interests and do not think of the situation as a whole. Not only is it not considered shameful anymore to violate the law, but on the contrary it is thought to be something of which to be proud. In addition, special privileges are highly esteemed, which makes the state of things even worse.

6. Punishment is neither strict nor severe. When anyone about to evade taxation or to engage in smuggling calculates the risks he is taking, he will estimate that the chances to be punished on breaking the law are very small, so that he will then rather decide to commit the offense, and thereby increase his profits.

Reasons for Wanting To Evade Controls

1. Coveting high profits. There are no encouragements in Taiwan for a hardworking and frugal person, and someone like that will of course never get rich. People who reap huge profits by either violating law, by bribery, by producing spurious products, or by manufacturing with stolen designs, or by engaging in any kind of speculative manipulations, will find nobody who will rebuke them or punish them for their misdeeds.

2. Since laws and regulations themselves are irrational, it is absolutely impossible to observe to observe them. For instance, according to the provisions of the Work Standards Law, women must not work on night shifts. This means that only men are to work in the mass media industry, such as in TV stations, which is obviously contrary to social reality.

3. Procedures are cumbersome. At times the procedures prescribed by the government are complex, and although it might be possible to fulfill them, it may be timewise inefficient to do so. To avoid this trouble, or to be more time-effective, people might prefer to rather do things in violation of the law.

4. Legal provisions are unclear, which gives corrupt officials the opportunity to practice fraud by arbitrary interpretations. On the other hand, if one were to excessively stick to the rules, it would make it impossible to properly size up the situation and adopt flexible measures. All these factors tend to add to illegal and control-evading acts.

5. Because of their own failings, government departments cannot adhere to principles. As they themselves act improperly, their actions will become nothing but attempts to ingratiate themselves with the people, and will be incapable of properly dealing with affairs; even if they would then want to control, they would not be able to.

6. Because some think the government will always encourage and reward those who had formerly broken the law to become law-abiding citizens, people will be encouraged to vie with each other in taking chances.

Other Factors That Enhance Social Culture

There are many other factors that play a role in the emergence of an underground economy, apart from the two causes, the desire to evade taxes and legal controls:

For instance, if a society has not yet been able to establish a perfect system of social stability, the people, when faced with an emergency or illness, will, out of necessity, seek help from underground money shops. The same will be the case if there is no national banking system to make small loans available. The fact that the banking system is conservative, bureaucratic, and not responsive to the conveniences of the people is the main reason for the proliferation of underground money shops. Moreover, in a society that lacks the guarantee of a sound social security system, people have no sense of security, and the fear of the future makes them think of underground investment companies. When a society lacks channels to save and invest in a normal way, also allowing reasonable profits, it naturally drives such activities underground.

When a society is filled with special privileges, and people's legitimate rights cannot find due protection, people will seek help from somewhere outside the system, and an underground society will form as a result. If controls are too irrational, or if a minority of privileged people can enjoy huge profits, it is bound to lead to such underground activities as smuggling. If the distribution of political powers of a society is irrational, people will be disinclined to pledge loyalty. If the composition of the legislative sector is irrational, or cannot fully reflect the will of the people, the people will not seriously obey any of the laws the legislature will enact. If those in decision-making positions lack sufficient wisdom to guide people toward correct and enlightened objectives, if the direction of the policies are uncertain, the uncertainties of people will make all laws amount to a vain effort.

Education that merely emphasizes getting diplomas cannot mold a law-abiding spirit in the nation. A lifestyle that emphasizes materialism will cause decadence among the people, to the extent that they will consider violations of the law as something to be proud of.

Effects of the Relationship Between the Two Sides of the Taiwan Strait

We want to point here particularly to the relationship between the two sides of the Taiwan Strait, which in the course of its many years is now turning from hostile confrontation to a somewhat shrouded warmth, as one important factor for the expansion of the underground economy.

Since the economic interdependence of Taiwan and the mainland is of a mutually supplementary nature, a prohibition of normal intercourse is obviously irrational and also unenforceable.

In view of Taiwan's manpower shortage, foreign labor in huge numbers, especially from the mainland, are illegally entering Taiwan. Because importation of many products

that have a ready market on Taiwan is forbidden, there no other way than to resort to smuggling.

Normalization of relations between the two sides of the Taiwan Strait would be helpful in bringing the underground economy to the surface.

Estimating the Scope of the Underground Economy

The scope of Taiwan's underground economy is difficult to accurately figure out since there are no exact quantitative records. However, from what we can observe of the underground economic activities or deduce from related data, it is of huge proportions and accounts for a large percentage of the gross national production. In estimating for 1962, the proportion on the material side was 14.15 percent, on the financial side 2 percent, and the share of the total amount of the underground economy 16.25 percent. Thereafter, the scope of the underground economy further expanded continuously, and by 1982 it was, on the material side 25.17 percent, on the financial side 6.4 percent and for the total amount of the underground economy a 31.62 percent share. Since 1982, economic order has further deteriorated, and the underground economy has rapidly grown; we estimate that in 1986 its proportions were 27.5 percent on the material side, and 12.95 percent on the financial side, totaling 40 percent of the gross national production.

In the last few years, Taiwan's social order has shown a lack of moral restraints, and discipline has broken down. Law-abiding and tax-paying citizens, on the other hand, have become the minority, and to the degree to which underground economic activities have become rampant, they have already overtaken the "surface" economy. In estimating the present condition, its proportion on the material side is 31.5 percent, on the financial side 25.5 percent, for a total underground economy as high as 57 percent. We may say there is nothing in the world like this, and that it is even surpassing South Africa, which is called the "prime kingdom of underground economy."

Influence Exerted by the Underground Economy

The influence exerted by the underground economy is as complex and felt on as many levels as the formation of the underground economy. Its influence is also equally extensive and long-lasting. There are at least five main aspects of this influence:

1. It reduces the revenue of government departments, forcing the government to reduce its functions.
2. It adds to the burden of the legitimate trade sector, curtails the inducement for the people to work, raises resistance and resentment against the government, reduces productivity, and obstructs development.
3. It leads to misdirections in the distribution of resources. It causes some originally highly productive sectors to go underground to avoid tax burdens or controls; on the other hand, sectors of low productivity

waste a large amount of valuable resources, or certain resources are prevented from being used at their highest effectiveness.

4. It leads to mistaken decisions. Because of the existence of this huge underground economy, it becomes impossible to achieve accurate economic statistics, and the quality of subsequent decisions declines, leading easily to the wrong decisions.

5. It harms the government's dignity and destroys the morality of the people. Because of the existence of the underground economy, the people are apt to trust in luck. They openly defy the law and do so without shame, which leads to a general moral corruption. In another respect, it reduces the dignity of the law to the lowest denominator, the government loses its public authority, and the public trust is completely bankrupted.

Taiwan Government To Import Foreign Labor

91CE0533A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 15,
15 Apr 91 p 32

[Article by Chang I (4545 1837): "Repatriation and Importation of Foreign Labor"]

[Text] Recently Taiwan's Ministry of Economic Affairs, Board of Labor, and business circles reached a tacit agreement to partially lift the ban on foreign labor. A study will be made through the National Industrial Association on the types of labor shortage faced by various industries, and recommendations will be made accordingly to the Board of Labor. On this basis, the Board of Labor will postpone repatriation of the illegal foreign workers currently hired by various industries, and will give preferential treatment to these industries in bringing in foreign laborers in the future. However, there are many who object to this policy decision, and even more who think that lifting the ban on foreign labor is a question which must be considered as a whole.

All Foreign Laborers Ordered To Leave

Taiwan has experienced a serious labor shortage in the past few years. In the last year, labor shortage was regarded as the "greatest problem" by more than 50 percent of the island's businesses and factories. Particularly hard-pressed are those in the labor-intensive manufacturing and construction trades, such as producers of clothing and accessories, wood, bamboo, and metal articles and contractors for housing construction, general civil engineering work, painting, wall-covering, mat-making, and so forth.

Taiwan's labor shortage is caused mainly by some labor-intensive trades, particularly small- and medium-sized enterprises, which, limited by conditions, are slow in readjusting their structures and upgrading their products and are still relying heavily on intensive labor. Another reason is that in the past two years or so, speculation in stocks has become a raging trend in Taiwan, and some

laborers, obsessed by hopes of "getting rich fast" and "without hard work," are no longer willing to work as laborers. It is said that as many as 300,000 to 400,000 laborers have left the labor market in one year, thus causing a "labor shortage."

Faced with the serious labor shortage, many businesses have no choice but to take advantage of legal loopholes to hire foreign laborers. It is learned that businesses hiring foreign workers have spread from the construction and manufacturing industries to the service trades and even information and communication services. It can be said that foreign workers are found everywhere. But, in the name of protecting the rights and interests of Taiwanese workers, the Taiwan Government some time ago ordered all foreign laborers to leave, and, as a result, the proportions of foreign workers hired by various industries have dropped sharply.

Appeals by Business Circles

Some time ago, owing to the impact of the Gulf War, Taiwan's industrial production was curtailed, and the labor problem eased up somewhat. But since the end of the Gulf War, industrial orders have been on the increase, and labor shortage has again become a growing problem. Many businessmen point out that orders have increased continuously in the past few months, but, due to the labor shortage, they have been unable to deliver the goods on time, and orders are being cancelled by the foreign buyers. Some factories have stopped making quotations for the next season, and production is obviously affected. Businessmen are calling on the government to lift the ban on the importation of foreign labor as soon as possible to meet the urgent need for workers. Otherwise, they will be forced to pass on the orders to other Taiwanese or mainland factories. It is said that there are about 3,000 electroplating factories in Taiwan. The special character of the electroplating process requires a large number of workers to handle the surface treatment of heavy metal items in high-temperature plating baths, and Taiwan's young people are unwilling to do this type of work. To solve the labor shortage, the electroplating factories have been hiring large numbers of foreign workers. In fact, the electroplating industry has relied on these foreign workers for its very survival in the past few years. But the recent adoption of forcible measures by the government to get foreign workers out of Taiwan within a specified time has greatly reduced the number of electroplating workers. According to statistics, the electroplating industry now has a labor shortage of 1,600 men, and half of its capacity is lying idle. The owners are wailing that the springtime for the electroplating industry has gone with the foreign workers, and they are calling on the government to find a solution quickly.

Partial Lift of the Ban on Foreign Labor

In view of the above-mentioned situation, the authorities have decided to partially lift the ban on the importation of foreign labor. It is said that the Taiwan Government does recognize the labor shortage as a real

problem, but, because different industries are offering different suggestions, it has decided to let the National Industrial Association make specific recommendations on behalf of all industries, to be used as the basis for the government to formulate a labor import policy.

It is learned that the National Industrial Association will recommend to the Board of Labor that the ban on foreign labor be lifted partially for six types of work, on the preconditions that it will not reduce the job opportunities for Taiwanese workers, that it will not affect the upgrading and updating of Taiwan's industries, that employers will strengthen management of foreign workers, and that management regulations will be enacted for employers. The six types of work are: 1) simple assembling work requiring no technological know-how; 2) work performed high above the ground, steepelocks in construction work, for example; 3) work in a high-temperature and high-pressure environment, like the dyeing and finishing trade; 4) work in a dangerous environment; 5) carrying and moving, in warehouses, for example; and 6) heavy manual labor in various industries. Foreign laborers currently hired to do these types of work may be allowed to stay for the time being.

However, this partial lift of the ban is not to take effect immediately, but must wait for the legislation of the "Employment and Service Law" and the formulation of a foreign labor policy based on a survey of the nature and quantities of foreign labor needed by Taiwan. As to the sources of imported foreign labor, the Board of Labor has disclosed that based on the need to expand economic and trade relations with Southeast Asian countries, preferential consideration will be given to workers from Thailand, Malaysia, and other areas. The purpose is to use the importation of foreign labor as an opportunity to develop trade talks and thus expand Taiwan's economic influence in Southeast Asia. As to the legal introduction of labor from mainland China, it is stressed that the prospects can only become clear after the enactment of the "regulations governing relations between the people on the two sides of the Taiwan Strait" and a "favorable" response from the mainland, or even after the realization of direct postal and air and shipping services and trade relations between the two sides.

Positive and Negative Impacts

This policy is naturally widely supported by business owners, who generally feel that the importation of foreign labor to relieve the pressure of domestic labor shortage has become the inevitable trend in industrialized countries and areas. They maintain that it is better for the Taiwan government to lay down clear-cut control measures and allow "open" employment of foreign workers, which can also prevent the creation of a dead angle to public security, than to let them come to Taiwan and find "work" through legal loopholes. However, some business operators are against unrestricted importation

of foreign labor. They think the government should have an overall plan based on Taiwan's labor supply and demand.

On the question of importing foreign labor, many government officials feel that it has a very strong negative effect, and that the government must consider the matter from an overall viewpoint. Some officials note that the foreign workers now entering Taiwan through various channels can only do basic labor work. These foreign workers not only can slow down the necessary updating and upgrading of the island's enterprises, but also have a harmful effect on social security and public health. Therefore, the importation of foreign labor is no solution to the labor shortage. Other officials think that before lifting the ban on foreign labor, the government must give careful consideration to four principles: the requirements of Taiwan's economic development; the impact on industrial updating and upgrading; the protection of the people's right to employment; and the cost to society.

As to the masses of the working class, it is natural that some do not welcome foreigners to compete with them for jobs. However, their reaction to the government's policy of partially lifting the ban on foreign labor is not very strong so far.

Undoubtedly the importation of foreign labor, whether legal or illegal, is unavoidable. Trying to cover up the problem can only make it more difficult. It is better to have a clear-cut policy to bring in foreign labor in a rational manner and reduce the impact on Taiwan society. This is the common understanding among a majority of the Taiwanese people.

Trading Activities in Mainland Examined

91CE0528B Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 15, 15 Apr 91
pp 25-26

[Article by Tang Yi (0781 1837): "Examining the Issue of Trade Between the Two Shores of the Taiwan Strait"]

[Text] In the last few years, trade between the two sides of the Taiwan Strait has rapidly increased and assumed large proportions, and it has indeed become the issue that has attracted most attention in the relationship between the two sides of the strait. In 1990, the indirect trade between the two shores has amounted to over \$4 billion, and absorption of Taiwan funds in the coastal provinces of the mainland has also increased by 10 to 20 percent. People are very optimistic about the prospects of developing further economic interchanges between the two shores.

In a reaction to the daily growing clamor by the people of Taiwan for more relaxations in the control of direct trade between the two shores, and for permission to invest directly over there, the authorities on Taiwan, however, have recently imposed new restrictions on economic exchanges between the two shores.

In March of this year, Taiwan's Ministry of Economic Affairs gave up the procedure of requiring those who have gone to the mainland and invested there to submit reports, and instead prescribed that "from those who have gone to the mainland and placed direct investments there, the government will accept registrations according to law, and will then urge them to convert their investments to indirect investments." Quite recently, Taiwan's "Mainland Affairs Council of the Executive Yuan has" again "called on Taiwan businessmen who have gone to the mainland and indirectly invested there to register with the Ministry of Economic Affairs, and to do so definitely before 8 April." The "Mainland Affairs Council" has indicated that after fulfilling registration and reporting procedures, the parties concerned will gain a variety of benefits, and that punitive restraints will be imposed on those "business enterprises who stand in violation of regulations" by not registering or reporting.

While relevant economic departments in Taiwan are in various ways about to place restrictions on the development of economic relations between the two shores, some members of the Central Standing Committee of the KMT proposed at their last meeting that the amount of mainland trade should be limited to 10 percent of the total Taiwan trade. Even though relevant authorities on Taiwan and Taiwan experts may be of the opinion that it would be difficult to enforce such restrictions, and that objectively there is no need for such restrictions, they pose for the general public certain questions on which it is worthwhile to ponder: Is the relationship of mutual economic and trade interchanges between the two shores something that actually supplements needs on both sides, or is it mutual competition? Is there still some "comparative benefit" gained from the economic cooperation between the two shores?

I believe we might as well try to answer the said questions according to the actual conditions of indirect trade between the two shores and of mainland investments by Taiwan businessmen.

Statistics received from concerned quarters indicate that during the period from 1979 to 1989, indirect trade between the two shores via Hong Kong rose from \$80 million to \$4.2 billion, i.e. at an average annual rate of as high as 45.8 percent, a growth rate that is rare indeed. Furthermore, throughout the entire 1980's, the amount of exports of Taiwan goods to the mainland by far exceeded the amount of mainland goods shipped to Taiwan. The former accounts for an approximate 63.8 to 89.2 percent span in the proportion of indirect trade, the latter accounts for an approximate 10.8 to 36.2 percent span in the proportion of indirect trade. Last year, indirect trade between the two shores maintained the same apparent imbalance. Total indirect trade throughout the year exceeded \$4 billion, of which shipments of mainland goods to Taiwan amounted to \$780 million, and shipments of Taiwan goods to the mainland to \$3.27 billion. A huge trade deficit as incurred by the mainland is also rare in usual regional trade relations.

A mere look at the absolute values of the above two indices shows that Taiwan business enjoys an obvious "comparative benefit." A few years ago, Taiwan newspapers and periodicals reported more than once that mainland trade had saved the lives of many of the medium and small enterprises on Taiwan. Thus, the reason why it was possible for Taiwan during the latter half of last year to dispel the dark clouds that had gathered over its exports during the first half of the year was the steep rise in Taiwan exports to the mainland; this was undoubtedly the major factor. Regarding the strategic objectives of dispersing Taiwan's export markets and improving the entire domestic and foreign economic environment, it goes without saying that it definitely brought about "comparative benefit."

Furthermore, looking at the structure of the trade between the two shores, we see that there is a growing trend to supplement mutual needs. The commodities that Taiwan shipped to the mainland prior to 1985 had predominantly—to over 70 percent—been consumer goods, mostly electric household appliances, nylon fabric, umbrellas, etc. Later, as Taiwan authorities relaxed restrictions on indirect shipments of Taiwan commodities, also investments on the mainland by Taiwan businessmen increased, and demand increased from the developing industry on the mainland, all these factors acted to stimulate large increases in shipments from Taiwan to the mainland of raw and auxiliary materials, intermediate products, as well as machinery and equipment. These commodities are now in dominant position; their proportion exceeds 90 percent, while the proportion of consumer goods very markedly declined. Prior to 1987 commodities shipped from the mainland to Taiwan were predominantly to over 90 percent—native products and local specialties, mostly medicinal herbs, and agricultural and sideline products. Thereafter, as the Taiwan authorities allowed the indirect importation of 153 items of agricultural and industrial raw materials from the mainland, there was an increase in shipments from the mainland to Taiwan of industrial raw materials and primary products. These became gradually, to over 60 percent, the dominant items, while the proportion of traditional native products tended to decline. Obviously, the product mix of indirect trade between the two shores has at this stage developed from the former exchange pattern that involved predominantly consumer goods and native products in the direction of diversification and items that would supplement the needs of both sides.

Due to these imbalances in the indirect trade between the two shores, and viewed under the aspect of "interdependence," the position is now that Taiwan shipments to the mainland are, comparatively speaking, economically weightier than mainland shipments to Taiwan, and there is indeed a certain relationship of interdependence gradually developing. However, according to official statistical data, the value of mainland indirect trade via Hong Kong in 1988 accounted for 2.65 percent of the value of all mainland exports, in 1989 for 3.12 percent,

and in the first half of 1990 for 3.75 percent. From the Taiwan side, Taiwan's indirect trade to the mainland during the period from 1985 to 1989 fluctuated at around 2 percent of Taiwan's total foreign trade, but in the first half of 1990 there was an abrupt rise to 3.11 percent. In the overall situation, the interreliance in the indirect trade between the two shores is still rather low and not of critical significance in the foreign trade of both sides.

As to the relocation of factories to the mainland by Taiwan businessmen, relevant authorities on the mainland last year investigated the 26 productive Taiwan-financed enterprises established in the Huli-gong industrial zone of Xiamen. In 1989, 95 percent of the products from these enterprises were exported, yielding an income of \$132 million in sales. During that year, eight enterprises submitted reports showing losses, one lost only RMB2,500 yuan. However, at the same time, seven out of 19 enterprises working with independent capital raised their capital, and also invested capital amounting to around 150 percent of the original amount. These occurrences fully explain that the majority of Taiwan-financed enterprises which have begun production have already achieved, on their own, a benign circulation of their capital accumulation.

Moreover, looking at the condition of business operations of enterprises operated as mainland-Taiwan joint ventures, six out of the nine joint venture enterprises in the Huli-gong industrial zone are operated under contract to Taiwan businessmen. The joint ventures on the mainland distribute annual fixed profits of 3 percent every year, and can achieve recovery of capital and interest within three years.

The said investigation discovered by a comparative analysis of costs of the shoe manufacturing industry as operated in Taiwan and as operated on the mainland that shoe factories which incurred losses on Taiwan became profitable enterprises when transferred to the mainland, marketing their products at an average profit margin of over 1 percent.

The stimulating effect of Taiwan investments on the development of regional economies on the mainland is also very obvious. For instance, it enhanced capital accumulation and foreign exchange supply on the mainland; it lightened the pressure of manpower surplus in the densely populated regions along the coast; it raised

the technological level of mainland enterprises, especially that of township enterprises in the coastal region, it also nurtured a set of well-qualified personnel, it increased tax revenue, and enlivened the markets. According to statistics, 1989 exports from Taiwan-financed enterprises accounted for 32.18 percent of exports from Fujian Province by all "foreign-invested" enterprises. Manpower employed by these enterprises accounted for 3.65 percent of all employed manpower throughout the entire province. In 1989, 95 percent of Taiwan-financed enterprises established during 1989 were profitable, and their economic returns were generally higher than those of other "foreign-invested" enterprises.

According to a critical analysis of the economic structure of the mainland and of Taiwan, and of the present international economic environment, the present direction of industrial investments of Taiwan capital, its geographical disposition, its technological preferences, it conforms with the technological level and the industrial condition of Taiwan, and also basically with the developmental level of the mainland economy and its industrial policy. Very obviously, in the cooperation of the two shores in industrial investments has also "comparative benefit," and is one of mutual benefit and reciprocity.

The above-mentioned figures and analyses explain that the present relationship of mutual interaction between the two sides of the Taiwan Strait has not at all "already developed from the former 'mutually supplementary' state to a state of mutual competition." I believe that we must not look at the relationship between the two shores with a "shortsighted vision," and that it would be even more inappropriate to make some kind of "political plan." We must rather realize that close intershore economic relations, broadening the common benefits of both sides, and conforming to the common desire of the people on both sides of the strait are also fundamental ways of promoting a healthy development of relations between the two shores. If artificial restrictions are placed by the Taiwan side on the development of economic and trade interaction between the two shores, it would not only make it impossible to realize the subjective desires of certain decisionmakers and certain relevant departments, but could possibly result even in inflicting harm on Taiwan's fundamental interests, affect the social stability on the island, and also the smooth development of the island's economy.

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